

EMNAMBITHI/LADYSMITH MUNICIPALITY



2010/2011 Medium Term Budget

EMNAMBITHI/LADYSMITH MUNICIPALITY
2010/2011 Medium-Term Budget

INDEX

	PAGE
Part 1 - Introduction by Acting Manager Finance	1
- Financial Model	7
-Property Rates Model	8
Part 2 - 2010/2011 Medium-Term Budget Commentary	
Part 2 Section - Description	Page
1 Mayoral Budget Speech	9
2 Budget Related Resolutions	17
The Budget	
3 Executive Summary	20
Supporting Documentation	23
4 Budget Process Overview (including consultation process and outcomes)	25
5 Alignment of Budget with Integrated Development Plan	27
6 Budget Related Policies Overview and Amendments	28
7 Budget Assumptions	28
8 Funding the Budget (including fiscal overview and sources of funding)	33
9 Disclosure on Allocations Made by the Municipality	38
10 Disclosure on Salaries, Allowances and Benefits	38
11 Monthly Cash Flows by Source	39
12 Measurable Performance Objectives (Revenue Source & Vote)	39
13 Disclosure on Implementation of MFMA & Other Legislation	39
15 Summary of Budgets/SDBIPs – departmental/functional (internal)	40

EMNAMBITHI/LADYSMITH MUNICIPALITY
2010/2011 Medium-Term Budget

INDEX

PAGE

Main Schedules

Table A1- Budget Summary	41
Table A2- Budgeted Financial Performance (standard classification)	42
Table A3- Budgeted Financial Performance (municipal vote)	45
Table A4- Budgeted Financial Performance (revenue & expenditure)	52
Table A5- Budgeted Capital Expenditure (vote, standard classification & funding)	53
Table A6 -Budgeted Financial Position	59
Table A7- Budgeted Financial Cash flows	60
Table A8 -Cash backed reserves/ accumulated surplus reconciliation	61
Table A9 - Asset Management	62
Table A10 -Basic Service delivery measurement	63

Supporting Tables

Supporting Table SA1 - Supporting detail to Budgeted Financial Performance	64
Supporting Table SA2 - Matrix Financial Performance Budget (revenue & Expenditure)	65
Supporting Table SA3 - Supporting detail to Budgeted Financial Position	66
Supporting Table SA4 - Reconciliation of IDP objectives and budget (revenue)	67
Supporting Table SA5 - Reconciliation of IDP objectives and budget (expenditure)	68
Supporting Table SA6 - Reconciliation of IDP objectives and budget (capital)	69
Supporting Table SA7 - Measurable Performance objective	70
Supporting Table SA8 - Performance indicators and benchmarks	72
Supporting Table SA9 - Social, economic and demographic statistics and assumptions	73
Supporting Table SA10 - Funding Measurement	74
Supporting Table SA11 - Property rates Summary	75
Supporting Table SA12 - Property rates by category (current year)	76
Supporting Table SA13 - Property rates by category (budget year)	77
Supporting Table SA14 - Household bills	78
Supporting Table SA15 - Investment particulars by type	79
Supporting Table SA16 - Investment particulars by maturity	80
Supporting Table SA17 - Borrowing	81
Supporting Table SA18 - Transfers and grant receipts	82
Supporting Table SA19 - Expenditure on transfers and grant programme	83
Supporting Table SA20 - Reconciliation of transfers, grants receipts and unspent funds	84
Supporting Table SA21 - Transfers and grants made by the municipality	85
Supporting Table SA22 - Summary councillor and staff benefits	86
Supporting Table SA23 - Salaries, allowances & benefits (councillors/ senior managers)	87
Supporting Table SA24 - Summary of personnel numbers	88
Supporting Table SA25 - Budgeted monthly revenue and expenditure	89
Supporting Table SA26 - Budgeted monthly revenue and expenditure (municipal vote)	90

EMNAMBITHI/LADYSMITH MUNICIPALITY
2010/2011 Medium-Term Budget

Supporting Table SA27 - Budgeted monthly revenue and expenditure (standard classification)	91
Supporting Table SA28 - Budgeted monthly capital expenditure (municipal vote)	92
Supporting Table SA29 - Budgeted monthly capital expenditure (standard classification)	93
Supporting Table SA30 - Budgeted monthly cash flow	94
Supporting Table SA31 - Entities	95
Supporting Table SA32 - List of external mechanisms	96
Supporting Table SA33 - Contracts having future budgetary implications	97
Supporting Table SA34a - Capital expenditure on renewal of existing assets (asset class)	98
Supporting Table SA34b - Capital expenditure on renewal of existing assets (asset class)	99
Supporting Table SA34c- Repairs and maintenance expenditure by asset class	101
Supporting Table SA35 - Future financial implications on the capital budget	103
Supporting Table SA36 - Detailed Capital budget	104
Supporting Table SA37 - Projects delayed from previous financial years	105

ANNEXURE 1 – Examples of monthly accounts	106
ANNEXURE 2 – Tariff Policy	110
ANNEXURE 3 – Customer Care, Credit Control and Debt Collection Policy	149
ANNEXURE 4 – Investment Policy	175
ANNEXURE 5 – Property Rates Policy	195
ANNEXURE 6 - Consultation Comments and Responses	213
ANNEXURE 7 – Quality Certificate	224

**EMNAMBITHI/LADYSMITH
MUNICIPALITY**

2010/2011 Medium Term Budget

PART 2 – Budget Commentary

1. Mayoral Budget Speech

I am pleased to stand here before you to present the 2010 / 2011 budget under the theme “ Working together to speed up Service Delivery”.

Over the past few months, a lot of Municipalities had faced Services Delivery protests from the communities which have been waiting for services for a very long time. This resulted in the formation of a commission by the Minister of Local Government and Traditional Affairs. This commission visited all 283 Municipalities to find out what problems were being experienced.

Last year in October ,the President of the Republic of South Africa, Mr. Jacob Zuma invited Mayors and Municipal Managers to discuss issues that were pertinent to Local Government. These two incidents resulted to the cabinet endorsing the MTAS. Municipalities were advised not to use a “ One size fits all” approach in coming up with their Turnaround Strategy.

I am pleased to announce that our MTAS is complete and we have tried to align it with our 2010 / 2011 budget. We want to ensure that this strategy becomes a living document with clear deliverables which can be measured.

One is mindful of the backlogs that we face with minimal resources that we have. We hope that the National Government will be able to review the funding model (especially the Local Government Equitable Share Grant) to address the concerns that we raised with both the President and the Minister of Local Government and Traditional Affairs.

The 2010 /2011 Medium Term budget has been taken to the communities for consultation. This budget document is very comprehensive and provides details of the budget. During the consultations, concerns, proposals and suggestions were raised. I must say that we have attempted to accommodate as many as we could, while also being mindful of creating a balance.

Over the past four years, we have attempted to create budgets that are pro poor. This one also accommodates the poorest of the poor. I must emphasise that it is not enough for the imbalances out there in our communities which were neglected for many years.

Last year, we gave a rates holiday for our business community. This was an attempt from the Municipality to ensure that we don't kill businesses that are operating in this town. I know that our attempts may not be good enough but I hope our business community does appreciate what we are doing.

PART 2 – Budget Commentary

This year, as a way of extending a helping hand to the business sector, we have decided to increase business rates by 5% and the residents by 8%. This has happened after lengthy discussion and cuts. Let me remind you that the first draft had 15% across the board.

We have also requested our officials to come up with revenue enhancement Strategies so that we don't rely on the rates as the only revenue that we have as a the Municipality.

Hon. Speaker, Cllrs, Officials and Memembers of the Community, allow me to highlight some significant points of our 2010 / 2011 Medium Term Budget

Capital Budget

Over the past three financial years, the Municipality has budgeted a staggering R 140 million for capital which has, and is being spent in critical areas such as rural roads, community facilities in areas where they are sorely lacking, electrification of new housing areas, much needed upgrade of electrical supply and purchase of plant and equipment to enhance improved service delivery.

The 2010/2011 budget will focus on the following areas:

- Upgrading of Electrical Infrastructure and to provide connections,
- Tarring of township roads,
- Construction of gravel roads and low water crossings,
- Erection of community and sports facilities (parks, halls, sports fields, swimming pool, etc),
- Upgrading and beautification of the CBD, including roads and sidewalks,
- Electrical systems strengthening,
- Construction of housing for low income groups,
- Installation of surveillance cameras in the CBD, Steadville, Colenso and Ezakheni,
- Implementing capital projects, and using labour intensive methods, where possible, to enhance job creation, and
- The purchase of plant and equipment to enhance improved service delivery.

The allocations to our capital budget are drawn from the priorities that were identified during the IDP community consultation meetings that were undertaken in February 2010. A total of R68.4 million has been allocated to the capital programme for the 2010/2011 budget.

Listed below is the detailed capital programme for the 2010/2011 budget year:

Vehicles totalling R5 140 000 will be purchased.

Emnambithi/Ladysmith Municipality's
2010/2011 Medium Term Budget

PART 2 – Budget Commentary

<u>Capital Budget 2010/2011</u>	-
	2010/2011
Revenue funded assets	
Economic Development	
Bluebank Cemetery (Ablution, Road, Water & Fence)	1 500 000
Ndomba Cemetery(Ablution, Road, Water & Fence)	1 500 000
Ezakheni Cemetery(Ablution, Road, Water & Fence)	1 500 000
Sub-total	4 500 000
Vehicles Budget	
1X Refuse Compactors waste	1 750 000
2 X 4 tonner trucks-parks	450 000
2 X LDV Bakkie-Parks	360 000
2 X LDV Bakkie-Waste	360 000
2 X Tractors-Public Participation	560 000
1 X LDV Bakkie-Plumber	180 000
1 X LDV Bakkie-Nuisance Inspector	180 000
TLB	550 000
Sub-total	4 390 000
Total Economic Development	8 890 000
Public Safety	
Security	
Vehicle Tracking System	50 000
Sub-Total	50 000
Disaster Management	
Disaster Management Plan	80 000
Emergency Tents	60 000
Radio Batteries	16 917
Sub-Total	156 917

Emnambithi/Ladysmith Municipality's
2010/2011 Medium Term Budget

PART 2 – Budget Commentary

Fire Brigade	
Replace 12X Drager BA Sets	180 000
Upgrade Jaws of life unit	200 000
Sub-Total	380 000
Traffic	
Street names (Steadville)	8 000
Street names (Ezakheni)	8 000
Analog number plate recognition	228 000
Sub-Total	244 000
Licensing	
Furniture & Equipment (new licensing building)	85 000
Equipment -for testing station	50 000
Sub-Total	135 000
Total	965 917
Electrical Engineering Services	
Plant & Equipment	
Vehicle-Hi-Rider bakkie	175 000
Sub-Total	175 000
Operations & Maintainance	
Hoist for Street light truck	175 000
Street light truck	400 000
Sub-Total	575 000
Total	750 000
Corporate Services	
Renovation of old Church to training facilities	250 000
Sub-Total	250 000
Total	250 000

Emnambithi/Ladysmith Municipality's
2010/2011 Medium Term Budget

PART 2 – Budget Commentary

Mayors Office	
Furniture	85 000
Sub-Total	85 000
Total	85 000
Borough Engineer	
Revenue Funded Projects	
Extension of Lister Clarence Building	2 300 000
Community hall-Watersmeet phase 2	950 000
Transport plan	500 000
Testing Station	1 200 000
Community hall-Emcitsheeni phase 2	950 000
Sub-Total	5 900 000
Total	5 900 000
Total Revenue funded projects	16 840 917
<u>Electrical Engineering Services</u>	
Design,Planning & Projects (DME funded projects)	
Thembalihle In-fills-248 connections	193 200
Umbulwane A,B,C-In-fills-50 connection	1 140 800
Adjacent to Steadville Area D-In fills-50 connections	230 000
Community gardens-20 connections	92 000
Area 'J' Remainder-57 connections	262 000
Area 'H' -500 connections	2 300 000
Area 'E' -184 connections	846 400
Electricfication	2 495 600
Sub-Total	7 560 000
Intergrated National Electrification Programme ESKOM	21 876 000
Borough Engineer	
Grant Funded Projects	
Neighbourhood development grant	1 000 000
	1 000 000

PART 2 – Budget Commentary

MIG Allocation	
Rural Roads wards 3,4,9	1 982 000
High Mast Lights	1 000 000
Bridges Ezakheni to Esidakeni (Planning)	100 000
Bridges Watermeet to Burford (Planning)	100 000
Landfill Site Phase 1 & 2	300 000
Ezakheni Sports Complex and swimming pool	7 600 000
12KM Ezakheni A,B,C,D,E	10 000 000
Total	21 082 000
Total grant funded projects	51 518 000
Grants & Subsidies	51 518 000
Own Revenue	16 840 917
Total capital budget	68 358 917

Funding sources for the capital programme are as follows:

- R 21 million from the Municipal Infrastructure Grant
- R 21.9 million from the National Electricity Programme (done by Eskom)
- R 16.8 million from revenue
- R 7.6 million from the National Electricity Programme
- R 1 million from the Neighbourhood Development Grant.

Operational Budget

Indigency will be provided to all households with a land and building value of R70 000 and less. These households will receive free services and rates. The indigency registration period would be ongoing with no cut off date.

Households whose gross income is less than two times the state pension per month can also apply for indigency relief. It is estimated that households will receive R 18 million in relief via this programme.

Pensioners 60 years of age or older and with a gross household income of R7 500 and less will receive a discount of 20% on their rates assessment. This rebate must be applied for during the 2010/2011 financial year.

PART 2 – Budget Commentary

Medically Boarded persons with a gross household income of R7 500 and less will receive a discount of 10% on their rates assessment. This rebate must be applied for during the 2010/2011 financial year.

Disabled persons with a gross household income of R7 500 and less will receive a discount of 20% on their rates assessment. This rebate must be applied for during the 2010/2011 financial year.

Child headed households with a gross household income of R7 500 and less will receive a discount of one hundred (100%) on their rates assessment. This reduction must be applied for in the 2010/2011 financial year.

A discount of 5% will be granted to all owners of property except for State and PSI , who will pay their rates in advance in full by 31 August 2010.

An amount of R 83.3 million has been received from National Government for the Local Government Equitable Share.

The total expenditure for salaries in this budget is R 128 .9million, and is inclusive of Councillor Allowances. An 8.5 % salary increase has been provided for the officials and this is in terms of the increase as agreed by the South African Local Government Bargaining Council and the two unions. An 8.5% increase has been budgeted for Councillor Allowances.

The increase in tariffs is as follows:

Rates: 8%
Commercial Rates : 5%
Electricity: 18.03%
Refuse: 8 %

The National Treasury has issued the guideline on the bulk electricity purchase tariff increase. In line with this, the Municipality has included a 28.9% increase on the Electricity purchases.

The following guidelines have been applied to the 2010/2011 tariffs:

- The ability of the community to pay for services received.
- The effect on the consumer accounts.
- Realistic revenue estimates taking into consideration actual income available and estimated growth percentages.
- Identification of grants from national, provincial and other agencies.
- The impact of inflation and other cost increases.
- The requirements of the tariff policy.
- The requirements of the Municipal Property Rates Policy.

PART 2 – Budget Commentary

- Credible collection rates and collection improvement targets.

Tariff increases are necessary for the ongoing provision of services and facilities, and to support the extension of services and facilities to areas that have previously been neglected.

The Municipality has embarked on new and innovative ways in which to increase our revenue sources as well as to improve our collection rates.

The municipality has engaged in ventures to attract investment in the Emnambithi/Ladysmith area. Land was made available to the private sector around the Sports Complex as well as the Helpmekaar Road in Steadville for housing projects and commercial development. The municipality has also encouraged commercial development in Ezakheni and there are plans to construct a shopping complex in the area. The Municipality has secured R62.5 million from the Neighbourhood Development Programme Grant administered by National Treasury to upgrade the Ezakheni area.

The Municipality implemented the Municipal Property Rates Act on 1 July 2008. An extensive community consultation programme was undertaken to educate the community on the impact of approved policy, and the benefits that it can bring to our municipality. The municipality has implemented four supplementary valuation rolls to date.

In closing, I believe that the budget presented will be able to enhance the quality of service delivery throughout the municipal area.

PART 2 – Budget Commentary

2. Draft Budget Related Resolutions

2.1. Council resolves that the annual budget of the municipality for the financial year 2010/11; and indicative for the two projected outer years 2011/12 and 2012/2013 be approved as set-out in the following schedules:

2.1.1. Table A1 Budget Summary.

2.1.2. Table A2 Budgeted Financial Performance (revenue and expenditure by standard classification).

2.1.3. Table A3 Budgeted Financial Performance (revenue and expenditure by Municipal vote).

2.1.4. Table A4 Budgeted Financial Performance (revenue and expenditure).

2.1.5. Table A5 Budgeted Capital expenditure vote, standard classification and funding.

2.1.6. Table A6 Budgeted Financial Position.

2.1.7. Table A7 Budgeted Cash flows.

2.1.8. Table A 8 Cash backed reserves/ accumulated surplus reconciliation.

2.1.9. Table A9 Asset Management.

2.1.10. Table A 10 Basic service delivery measurement.

2.2 Council resolves that property rates reflected below and any other municipal tax reflected in the **Annexure 2 ‘Tariff Policy’** and **Annexure 4 ‘Municipal Property Rates Policy’** are imposed for the budget year 2010/11.

Category	Tariff	Exemption	Phasing in	Impermissible per property R	Rebate
Residential	0.0117	No	No	15 000	No
Industrial and Business	0.021	No	No	15 000	No
Agricultural	0.0029	No	Yes	15 000	No
Public service Infrastructure	0.0029	Yes		30% of valuation	No
Vacant Land	0.0486	No	No	0	No
Rural Communal	0	Yes			No

PART 2 – Budget Commentary

Game Hunting and /or Eco Tourism	0.0117	No	Yes	15 000	No
Municipal Domestic	0	Yes			No
State	0.0216	No	No	15 000	No
Land Reform Beneficiaries who have title to the property </>10 years		Yes			No
Public Benefit Organisations	0.0029	Yes			No
Religious		Yes			No
Industrial Estate with an estate and serviced by Agent	0.0163	No	No	15 000	No
Industrial Estate with an estate and serviced by owner via Agent	0.0163	No	No	15 000	No
Ingonyama Trust Board		Yes			No
Public Open Space		Yes			No
Municipal Vacant Land		Yes			No

2.3 All newly rateable properties are subjected to the phasing in terms of Section 21 of the Local Government: Municipal Property Rates Act of 2004

2.4 That the refuse tariffs be increased by 8% with effect from 1 July 2010 and that the increased tariffs be charged and levied with effect from 1 July 2010 in terms of chapter 4 of the Municipal Finance Management Act No 56 of 2003.

PART 2 – Budget Commentary

- 2.5. That should it be necessary, a Municipal adjustments budget be prepared in accordance with Section 28 of the Municipal Finance Management Act No 56 of 2003.
- 2.6 That funds from electricity surplus be applied to fund other municipal expenditure.
- 2.7 That interest at the rate of prime plus 2.5% per annum be levied on all overdue municipal accounts.
- 2.8 Council resolves that tariffs and charges reflected in **Annexure 2 'Tariff Policy'** are approved for the budget year 2010/11.
- 2.9 Council resolves that the measurable performance objectives for revenue from each source and for each vote reflected in **Supporting Table SA7** are approved for the budget year 2010/2011.
- 2.10 Council resolves to adopt the amended Integrated Development Plan **subject to amendments resulting from the consultation and IDP assessment.**
- 2.11 Council resolves that the amended policy for Credit Control, Debt Collection and Indigent Polciy, the Municipal Property Rates Policy, the Tariff Policy, the Investment Policy and the Incentive Policy is adopted for the budget year 2010/2011.
- 2.12 Council notes the draft SDBIP will be tabled to Council in May 2010 for approval by the Mayor.
- 2.13 Pensioners 60 years of age or older and with a gross household income of R7 500 and less will receive a discount of 20% on their rates assessment. This rebate must be applied for during the 2010/2011 financial year.
- 2.14 Medically Boarded persons with a gross household income of R7 500 and less will receive a discount of 10% on their rates assessment. This rebate must be applied for during the 2010/2011 financial year.
- 2.15 Disabled persons with a gross household income of R7 500 and less will receive a discount of 20% on their rates assessment. This rebate must be applied for during the 2010/2011 financial year.
- 2.16 Child headed households with a gross household income of R7 500 and less will receive a discount of one hundred (100%) on their rates assessment. This reduction must be applied for in the 2010/2011 financial year.
- 2.17 Consumers excluding state and PSI be granted a 5% discount should the total rates bill be paid in full in advance by the last working day in August for the 2010/2011 budget year.

PART 2 – Budget Commentary

- 2.18 Bridging finance for the capital programme must be made available.
- 2.19. The electricity tariffs be increased by 18.03% subject to approval by NERSA.
- 2.20. The budget be submitted to the relevant treasuries subject to the changes suggested by Council.
- 2.21. Security deposits be paid in cash to the Municipality may vary according to the risk. The average Deposit for new connections be determined on application for electrical services. The Municipal Manager can increase deposits at any time and at his sole discretion not to be more than two and half times the monetary value of the most recent consolidated accounts of the premises for which an application is made.
- 2.22. Implementation of the capital programme be subject to the availability of funds.

3 Executive Summary

This is the fourth budget of the Council elected on 1 March 2006. It is a continuation of the process of continuous improvement in budgeting and moves towards a longer-term financial planning outlook and Medium Term Income and Expenditure Framework through the consideration of a 3-year budget.

Consultative Process

The 2010/2011 Budget was tabled by the Mayor and it was taken to the public for comments. A community consultation process was undertaken primarily through public meetings throughout the Municipal area.

Comments from the Public Consultation Meetings were analysed and taken into consideration prior to the final budget being considered by the Municipal Council.

Alignment with government priorities

In order to ensure integrated and focused service delivery between all spheres of government it is important for the Municipality to align its budget priorities with that of National and Provincial government. Both National and Provincial government place a high priority on infrastructure development, economic development, efficient service delivery and poverty alleviation.

PART 2 – Budget Commentary

Past & current performance, achievements, major policy initiatives and challenges

Emnambithi/Ladysmith Municipality has made good progress in a number of areas since the incorporation process in 2000. In these recent years of developmental and democratic government, a high focus has been necessary on financial sustainability. This required careful management of spending and monitoring service delivery in terms of affordability.

Despite tight financial constraints service delivery has been ongoing with the provision of new roads, extending the electricity network into desperately needed areas, maintenance of the current road and electricity networks, providing housing in conjunction with Provincial Government, collecting and managing refuse and providing health care and clinics.

In the 2008/2009 year alone, 80 km of gravel roads were constructed and rehabilitated. Arterial roads around the CBD were resurfaced and Murchison Road was rehabilitated. Contractors were appointed to construct 5km of roads in Sections A and E in Ezakheni. Approximately 15 low water crossings and pedestrian bridges were constructed as well as the bridge across the Klip River linking Ndomba to Umbulwane. The frame structure and surface slab was laid for the Emakhukwini Community Hall. Phase 2 has commenced which is to complete the outer structure. The building of the Ezakheni Sports Stadium phase 1 has been completed and phase 2 is about to commence. This project is funded from grants. Much needed upgrading of the plant fleet continued with the purchase of new vehicles from the state tender. The purchase of other heavy plant is being investigated, as this could assist in the projects set out for the 2010/2011 year.

Electricity was connected to 265 new households during the year. Progress on the Steadville area 'C' and Ntombi Camp projects is well underway which will mean electricity for another 500 households. Electrification of the Roosboom area is being undertaken. 30 high mast lights have been installed in the rural areas such as Peacetown and Watersmeet. There are further projects planned for the connection of another 334 households.

Addressing the serious backlogs in providing adequate housing continues as a critical focus for our Municipality, which is addressed in conjunction with the Provincial Department of Housing. Numerous housing projects are in progress, 3 500 houses in the St Chads Housing project, 170 houses in Steadville Area E and in Ezakheni. Projects about to commence include 450 houses in Steadville Area H. Various rural housing projects are also being investigated. The Municipality has applied for emergency funding of R18 million to repair 600 houses damaged by the violent storms in the municipal area. The Mayor also embarked on a project to assist in the building of houses for the community in St Chads.

PART 2 – Budget Commentary

Clinic services were provided throughout the Municipality and HIV/Aids treatment was provided to more than 5000 patients in need during the year.

The Municipality is participating in a countrywide financial reform programme for Local Government. The spearhead of this programme is the Municipal Financial Management Act (MFMA), which aims to modernise financial management and place it on a sound footing to be able to deliver satisfactory services to its customers.

The object of the MFMA is to secure sound and sustainable management of the financial affairs of the Municipality through transparency, accountability, planning and appropriate allocation of responsibility. In accordance with the Act, the Municipality has placed considerable emphasis on improving reporting systems to management and elected members. This is to ensure key stakeholders are adequately informed to be able to make the right decisions about the financial management of the Municipality.

The 2008/2009 Financial Statements have been completed and audited. The Municipality received a qualified Audit Report from the Auditor-General.

Various Local Economic Development projects including car washes, community gardens, ploughing of fields and the aloe and berg tea projects were pursued during the year.

The Municipality has purchased the much needed fire engine to provide a critical service to the citizens of Emnambithi/Ladysmith and is currently undertaking to provide an additional testing centre for the issuing of drivers licenses to accommodate the increased demand.

One of the key challenges for the future that the Municipality faces is increasing its payment levels. Almost 73% of the Municipality's budgeted revenue is from local rates and payments for services. Non-payment directly threatens the municipality's ability to deliver services to its residents in the future. With extensive indigency measures in place, service delivery is dependent on Council implementing the Credit Control Policy on those residents that can afford to pay. With the implementation of the Municipal Property Rates Act there is a change in the rates tariff structure in that only a randage will be levied against the market value of the property and no rebates will be granted.

Another critical challenge is providing adequate infrastructure and assets. As a Municipality we are exceedingly aware of the community's needs for new infrastructure such as roads, footbridges, street lighting, community sport grounds, halls and other facilities.

However with limited funds, and infrastructure growing each year, there is less money to spend on maintaining the roads, stormwater, streetlights, community facilities and assets such as Council's trucks, road plant and other vehicles. Sometimes grant

PART 2 – Budget Commentary

funds are provided to build the initial asset, but there are no ongoing grants to maintain the assets. Where assets are inadequately maintained, they quickly deteriorate, and either become irreparable or very expensive to repair. Regular maintenance is the cheapest option, but unfortunately this Municipality does not allocate sufficient funds for regular maintenance on the huge amount of infrastructure and assets that it controls.

Expanding service delivery infrastructure and maintaining existing assets remains one of our greatest challenges.

The municipality received R14.1 million in terms of the Small Town Rehabilitation Grant and this funding must be spent by end of March 2010. The projects that will be focussed on are: The Town Centre Beautification, Midblock Parking, Trading Stalls in Queen and Forbes streets , Surveillance Cameras , Sidewalks in the CDB area and Upgrading of the Wimpy and Sondela parks.

Selected highlights from the operational budget and capital program

Electricity infrastructure is receiving a much-needed boost with the provision of R 8.3 m for refurbishment. The electricity service has increased the collection of outstanding monies through the appointment of a contractor to perform the task of removing meters and disconnecting services for non payment.

Emergency relief has been allocated R2 m to assist our most needy in times of natural disaster, which often occurs, with the damage of houses in the stormy season.

The Municipality will provide the service of refuse removal in the Ezakheni area. This has necessitated the purchase of two (2) bakkies and a refuse compactor in addition to the vehicles that were purchased last year.

The maintenance of the roads and the stromwater drains will be an ongoing process. Maintenance of the electricity reticulation will also be addressed through the upgrading of substations and electrical equipment.

The provision for bad debt has been increased to R11million for the 2010/2011 as the payment levels have decreased.

The main focus for the capital budget is the provision of infrastructure in specific areas from grant funding and loans. The upgrading of the vehicle fleet is also a high focus of the 2010/2011 year.

PART 2 – Budget Commentary

The total capital budget for 2010/2011 is R68.4 million

R 11.9 million to roads.

R 7.6 million to electricity. R21.9 million will be allocated to Eskom by the National Government for the electrification of the townships.

R 5.1 million to the purchase of vehicles.

R1.2 million for the new testing station.

R7.6 million for the Ezakheni sports complex.

Provision for capital in the outer years 2 and 3, is dependent on funding in each year in terms of loans, grants and cash reserves.

Supporting Documentation

Section 17(3) of the MFMA requires certain documents to accompany the budget. The table below lists the necessary requirements and where these are contained.

Legislative Requirement	Compliance Section
(a) Draft resolutions-	
(i) approving the budget of the municipality;	Section 3
(ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and	Section 3
(iii) approving any other matter that may be <u>prescribed</u> ;	Section 3
(b) measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;	Annexure 4 Supporting Table 10
(c) a projection of cash flow for the budget year by revenue source, broken down per month;	Annexure 4 Supporting Table 10
(d) any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act;	Section 8
(e) any proposed amendments to the budget-related policies of the municipality;	Section 9
(f) particulars of the municipality's investments;	Supporting Table 4a
(g) any <u>prescribed</u> budget information on municipal entities under the sole or shared control of the municipality;	Not Applicable
(h) particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;	Not Applicable
(i) particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;	Not Applicable
(j) particulars of any proposed allocations or grants by the municipality to-	
(i) other municipalities;	Not Applicable
(ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;	Not Applicable
(iii) any other organs of state;	Not Applicable

PART 2 – Budget Commentary

(iv) any organisations or bodies referred to in section 67(1);	Section 12
(k) the proposed cost to the municipality for the budget year of the salary, allowances and benefits of-	
(i) each political office-bearer of the municipality;	Supporting Table 4a
(ii) councillors of the municipality; and	Supporting Table 4a
(iii) the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;	Annexure 4 Supporting Table 4a
(l) the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of-	
(i) each member of the entity's board of directors; and	Not Applicable
(ii) the chief executive officer and each senior manager of the entity; and	Not Applicable
(m) any other supporting documentation as may be prescribed.	Not Applicable

4. Budget Process Overview

Political oversight of the budget process

The MFMA charges the Mayor and EXCO with the responsibility of ensuring the budget complies with applicable legislation and considers the needs of the community including:

- Providing political guidance over the budget process and the priorities that guide its preparation,
- Ensuring the budget is tabled and approved on time,
- Ensuring the Service Delivery and Budget Implementation Plan and Annual Performance Agreements are developed and approved, and
- Publicity and consultation on the budget is undertaken

Schedule of Key Deadlines relating to budget process [MFMA s 21(1) (b)]

Council adopted the Budget/IDP Time schedule in August 2009.

The timetable and process for tabling and approval of the budget is as follows:

ACTION	WHO	WHEN
Budget Workshop(All Councillors)	MF	12/03/10
Consider tabled Budget	EXCO/Council	24/03/10
Public advertisement, press release etc to	MF	25/03/10

PART 2 – Budget Commentary

community advising of tabled Budget		
Budget Consultation	MF /EMED	March/April 2010
Collate feedback from community	MF/EMED	March/April 2010
Budget Workshop	MF	6 May 2010
EXCO to consider budget and community feedback	EXCO	13 May 2010
Council considers and adopts Budget and reviews draft SDBIP's and Performance Agreements	Council	13May 2010

Process used to integrate the review of the IDP & preparation of the budget

The Time Schedule adopted by Council in August 2009 provides for an integrated Budget and IDP Preparation Process.

Additionally, the introduction of the Service Delivery and Budget Implementation Plans has enhanced matching of IDP priorities to the operational and capital budget, as well as setting performance targets for IDP objectives.

However, actual integration of the IDP and Budget process, including review by elected members and the community of the IDP strategies and priorities and translating these to the budget requires improvement, particularly in terms of capital programmes.

Models used for prioritising resource allocation

Community participation is an effective method of identifying priorities, but it is also critical to develop an IDP Prioritisation/Project Evaluation model for determining budget allocations. This model would take into account community needs, project profiles and assessment, available resources, strategic planning, national, provincial and local policy and good municipal management. Development and approval of Financial Planning and Annual IDP Review Guidelines will also assist this process.

Consultation

In accordance with the Municipal Systems Act and the Municipal Financial Management Act, consultation was undertaken with the local community primarily through public meetings in all wards.

Copies of the draft budget were provided to other levels of government for their comment.

PART 2 – Budget Commentary

5. Alignment of Budget with Integrated Development Plan

The IDP is undergoing review as required by the Municipal Systems Act and MFMA. The 2005/2006 IDP process marked the beginning of a new five (5) year development program for the Municipality in line with the new term of office for the Council.

There is little change to the status quo and much of the information is deduced from the 2001 statistics as in the previous IDP.

Unlike the previous process, there has been consideration given to issues raised in Local Government Summits such as:

- Cooperative governance
- Women, youth, and disabled persons
- The role of infrastructure in poverty alleviation
- The relationship between Traditional Leadership and Municipalities

The above issues have been now identified in the IDP but still require further and serious attention.

The revised Spatial Development Framework has been incorporated and should serve as a vision for Council's development programme. The Economic, Tourism and Agricultural plans have also been incorporated in the IDP.

Implementation of the Performance Management System commenced in July 2006 and significant progress has been made particularly with Performance Agreements for Senior Staff and Performance Management Framework adopted by Council. .

There is now convergence and understanding from all role-players that the IDP should inform the budget process. The needs appearing on the IDP have been manipulated into programs that influence the division of the Capital Budget.

The budget will translate community inputs into a programme of action for the next three years. Therefore this budget should in essence address the following key priority issues as determined by the Community in the IDP:

- | | |
|------------------------|-----------------------|
| • Roads | • Electricity |
| • Community Facilities | • Unemployment |
| • Bridges | • Refuse Removal |
| • Poverty Alleviation | • Community Safety |
| • Storm Water | • Skills Development |
| • Aesthetics | • Information Signage |
| • Soil Erosion | |

Council acknowledges that the IDP has guided the Budget Process.

PART 2 – Budget Commentary

It is important that plans are within the financial capacity of the Emnanbithi/Ladysmith. Part 3 supporting tables 1 to 3 **shows the high level link between the budget and the IDP.**

6 Budget Related Policies Overview and Amendments

Listed below are the Municipality's budget related policies. These policies are available from the Municipality on request. Some policies including the Debt Collection, Credit Control and Customer Care, Municipal Property Rates Policy , Investment Policy, Tariff policy and the Incentive Policy are under review. Major changes will be highlighted and provided as part of the budget process.

Current Budget Related Policies

- Accounting Policy
- Credit Control, Debt Collection and Customer Care Policy (including Indigent Policy)
- Investment Policy
- Supply Chain Management Policy
- Tariff Policy
- Promotion, Recruitment and Selection Policy
- ABET Policy
- Workplace Policy on HIV/AIDS
- Workplace Policy on Substance Abuse
- Study Leave Policy
- Employee Assistance Program Policy

Employment Policies under development

- Job Creation Policy
- Email Policy

Policy Amendments

The major changes to the attached policies are highlighted in the policies.

7 Budget Assumptions

This section provides information on the assumptions used in preparing the budget. In most cases, the information is provided for the 2010/2011 budget year, and generally the same assumptions are applied to the 2 projected outer years.

PART 2 – Budget Commentary

General inflation outlook and its impact on municipal activities

The 2009 medium term outlook for the South African economy remains positive with the general inflation forecast advised by National Treasury projected at 6.7% for the three year forecast period.

In the 2009/2010 year the CPIX in February 2010 was at 6.7% from the Reserve Bank of South Africa. Therefore the Municipal 2010/2011 tariff increase of 8% for refuse and rates. The increase for electricity tariffs is 18.03%, which is controlled by NERSA. This increase guideline has been released by National Treasury.

Credit rating outlook

In September 2006, Emnambithi/Ladysmith Municipality was pleased to receive a long-term credit rating of BB+. Some of the findings of the credit rating included:

- A stable outlook rating and a short term rating of B;
- The municipality's debt burden is low at 2.5% with new borrowings increasing it to 10%, this is well within the municipality's affordability limit;
- The debtor's collection rate for the 2009/2010 financial years is at 73%
- Our rating of BB+ was the highest achieved in a comparison done in the report with five municipalities.

Interest rates for borrowing and investment of funds

When the Municipality last accessed loan funds in March 2008, it was able to access at an interest rate of 12.01 %. It is not expected that there will be a major variation on these rates if loan proposals are sought from the market.

Rates, tariffs, charges and timing of revenue collection

Accounts for rates, refuse and electricity are issued on a monthly basis and are due and payable within 30 days of issue. Recovery procedures for non-payment may be commenced within 1 day of payment default.

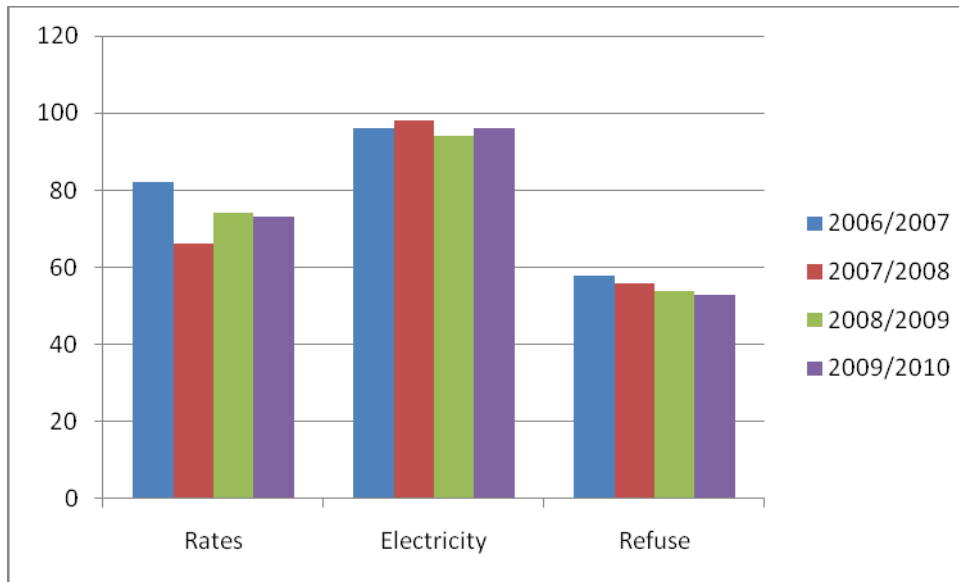
Growth in tax base of the municipality

The rate base of the Emnambithi/Ladysmith has increased due to the implementation of the Property Rates Act. This incorporates the areas that were not rated previously. The newly rateable properties will be in the second year of their compulsory phasing in period.

Collection rates for each revenue source

Listed below are collection rates for major revenue sources for the current and previous financial years.

PART 2 – Budget Commentary



As the graph indicates, there has been a decline in the collection rates of the electricity and refuse services. The dedicated legal team and credit control section of the municipality has managed to increase the collection rate of the Rates service. However, diligent application of the Credit Control Policy in 2010/2011 is needed to improve this trend as well as collect the historical debt.

Price movements on specifics e.g. bulk purchases of electricity, fuel etc

Eskom has announced a 28.9% increase, and this will be applied to the bulk purchase of electricity.

Average salary increases

An estimated 8.5% salary increase for officials and 8.5% for councillors has been budgeted for.

Industrial relations climate, reorganisation and capacity building

The industrial relations climate in the Emnambithi/Ladysmith Municipality is sound, as most of the outstanding issues such as restructuring; the placement of staff and the job evaluation process have been completed. A good working relationship exists between management and unions. The Municipal Manager has addressed all the outstanding issues amicably and the process of implementing the job evaluation results will be done as soon as the salary curve has been issued by SALGA.

PART 2 – Budget Commentary

Capacity building is undertaken through the Skills Development Plan, which is updated and submitted to all relevant parties on an annual basis. Employment Equity plans also makes provision for upward mobility as a means of capacity building.

Indigency and free basic services

Currently around 6 000 poor households received a 100% relief on their rate accounts. In total, indigent households will receive an estimated R 21.1 million in financial relief. Indigency is available by application as well as to those properties that have a land and building value of R70 000 or less.

All indigent consumers receive free basic electricity in the amount of 50kWh per month and R 2.6 million has been budgeted for this in the 2010/2011 budget year. R 1million has been budgeted for free alternate energy which will be distributed to the communities that do not have access to the electricity network.

All indigent households currently receive a free refuse service, which is valued at around R6.8 million in the 2010/2011 financial year.

Impact of national, provincial and local policies

Strengthening the link between policy priorities and public expenditure is the core of medium term budgeting. Public expenditure translates policy priorities into delivery of services to our community and therefore is a key tool for accomplishing public goals.

One of the key national priorities is the improvement and accessibility of services to the community, which incorporates the need to create new and rehabilitate existing infrastructure. The provision of basic infrastructure to disadvantaged communities is needed.

It is important that within the Municipal budget, new proposals for both the operating and capital budget demonstrate a clear link between their expected outputs and key government objectives including national, provincial and local priorities.

Our IDP is aligned to the National Performance Objectives and the priorities arising from the recent community consultation are listed as part of the tabled capital budget.

Ability of the municipality to spend and deliver on its programmes

A number of factors impact on the ability of service delivery departments to deliver on programmes. These issues and risks are mainly focused on the lack of adequate resources and planning and include:

PART 2 – Budget Commentary

Staffing – Skill Shortages

There is a shortage of skilled and experienced Technical Staff, as well as Artisans/Operators. When vacant posts are advertised, the experienced and skilled incumbents do not apply, as the salary scales in smaller towns are not attractive.

Staffing - Staff Shortages

Although the boundaries were increased with demarcation in 2000, no additional staff was appointed. However, the area/boundaries have increased considerably and provision is needed in the budget to appoint appropriate incumbents.

Competing priorities within the organisation with skill and staff shortages can also severely affect the ability of the municipality to deliver, as is the case with too few electricians being available and required for both electrical functions, as well as providing credit control through disconnections.

To alleviate these problems, Council needs to consider implementing Learnerships as well as Contractor Development Programmes to enable and implement Capital and Maintenance Programmes, as skill levels in the community are limited.

Plant and Equipment

The average age of the vehicles can be well over 10 years and the average age of heavy plant can be 20 years. There are constant breakdowns, which are affecting service delivery. Small equipment is old and needs to be replaced as the breakdowns also affect service delivery.

Planning and Direction

Development of a fair and appropriate model for resource allocation and commitment to long term planning will improve the ability of the Municipality to delivery and sustain services and infrastructure. Clear and consistent policy from Council assists in speedy service delivery for the entire community.

Legislation and Organisational Change

New Legislation has resulted in change of operational procedures and new processes have to be put in place. Due to vacuums that have been created as a result of new Legislation, staff morale is low, i.e. Job Evaluations, restructuring etc. The Municipal Property Rates Act has changed the structure of the rates tariff in that no rebates are allowed and the rates are now calculated on the market value of the property.

PART 2 – Budget Commentary

Powers and Functions

Powers and Functions have caused some delays in finalizing issues as more than one organ of state is involved in approval.

Implications of restructuring and other major events into the future

Council adopted a new organisational structure in March 2006, which included the creation of five new posts for Executive Managers as well as the creation of the Municipal Manager's department. Two Executive Managers have already been appointed and staff associated with the office of the Municipal Manager has also been appointed. The Executive Manager: Finance and Executive Manager Infrastructure and Services posts have been advertised and is due to be filled. This creates vacancies for a vital component of the Municipal organisational structure.

8 Funding the Budget

Fiscal Overview

In the recent past, the Municipality experienced a period of extremely tight financial constraint. This was initially brought about by demarcation and incorporation, which increased municipal boundaries and responsibility. Although the Municipality was on the brink of serious financial difficulty, the finances were carefully managed with close scrutiny on spending, minimal capital programmes and borrowing, and careful monitoring of cash flow.

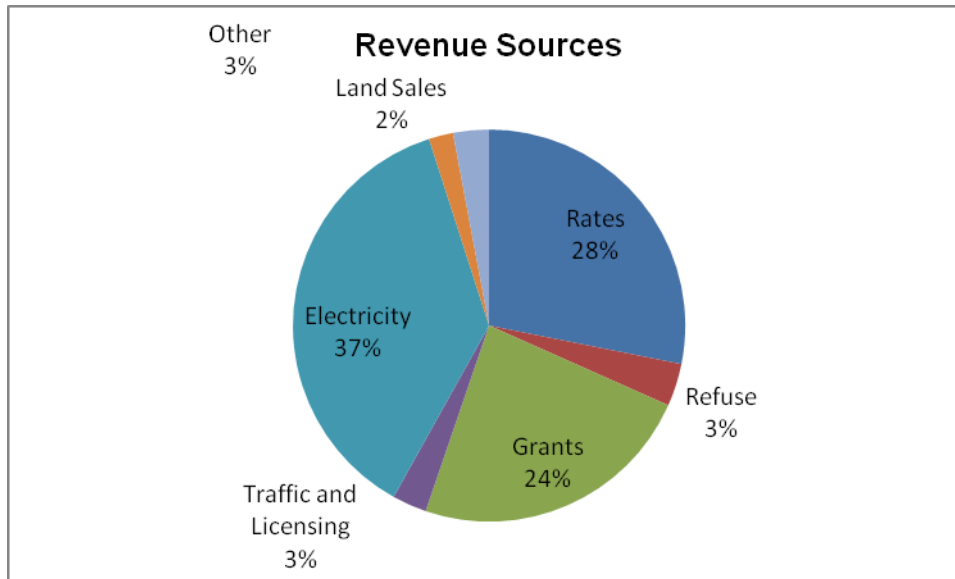
This prudent management turned the precarious situation around, and in the 2005/06 Budget, the Municipality was able to embark on a capital programme accelerating service delivery using long term borrowing. Cash reserves have been used to fund the 2006/2007 capital programme and cash flow requires ongoing careful monitoring. In 2007/2008, a loan of R6.7m was accessed to fund the purchase of vehicles. Cash resources are minimal due to the decline in the payment rates.

Financial Statements for 2008/2009 were prepared in terms of Generally Recognised Accounting Practice and a qualified audit report has been received from the Auditor-General.

Financial Services has developed a 3-year financial model, which is submitted with the budget. This financial planning tool is used to model the impact of different tariff increases, the impact of varying salary increases, the impact of different levels of loan funding and other major budget variances. By using a 3-year timeframe, it is possible to assess the impact of decisions over time and assist decision makers to make budget decisions that are sustainable.

PART 2 – Budget Commentary

The Municipality is in a strong position in terms of generating its own revenue through rates and taxes and in year one of the tabled budget, 24 % of income is received from external sources as detailed in the graph below 'Sources of Revenue'.



One of the challenges the Municipality faces is improving debt collection for those ratepayers who can afford to pay. As indicated in Section 10 of this document, average collection rates are around 73% and have declined over the past 12 months. However, outstanding debt amounts to over R106 million and it is crucial that the credit control focus on the collectable debt and any uncollectable debt is written off.

R28 million was written off in the 2009/2010 year.

It is important the Credit Control policy with regard to indigency is monitored and reviewed to ensure that the policy is fair, addresses the needs of the poor, and is efficient and cost effective to administer. It is also an important responsibility of the Council to ensure that the policy with regard to debt collection is applied fairly but rigorously so that those who can afford to pay do so.

Another major challenge the municipality faces is in terms of funding assets and equipment. There is insufficient funding allocated to maintenance and replacement of existing assets and plant. As a developmental municipality, we have a duty to provide new assets to those communities who are asset poor. However, financially we are struggling to maintain existing assets. Adding to the asset base further exacerbates the maintenance issue and it is not sustainable within current budgeting techniques.

In terms of the MFMA and GRAP, for a credible budget, all depreciation should be included as an expense to build funds for maintenance and replacement of assets.

PART 2 – Budget Commentary

However in the 2010/2011 budget presented, more than R 26.4 million of depreciation on mainly grant-funded assets has not been included. Although the R17.7 million provided for depreciation in the budget is a substantial increase over last year it is vital that we continue to progressively increase depreciation funding in the budget so that in the medium to long term, we are compliant with legislation and have provided for the maintenance and replacement of existing assets. A total of R64 million is the total amount that is included in the schedules to National Treasury. This is a non cash item, and therefore does not need to be funded.

Another aspect of capital planning which needs to be improved is providing the full cost implications for capital projects including operating, staff, maintenance, and asset replacement costs. It is important that the Council know the full life cycle cost of an asset when budgeting for it, as it will have future budget implications and the project will impact on current and future tariffs.

Much of the Municipality's plant fleet is old and spends more time in the workshop than in providing service delivery. Hire of heavy plant and maintenance and downtime of plant is a major cost. In recognition of this dilemma, significant funds have been directed towards plant and equipment purchases for the past two financial years. This budget continues with this focus with a further R 5.1 million allocated for vehicles. A medium to long-term plan for the replacement of plant and equipment needs to be developed and continued Council commitment to funding this plan is important to ensure wider and more efficient service delivery.

These issues can be addressed by moving toward a longer-term outlook for all planning including capital and asset planning. Deciding on capital projects just before the beginning of the financial year puts great risk on the ability of the service departments to complete all the necessary processes and finalise the project within any financial year. By committing to 3 -5 year capital plans, the Council improves the ability to deliver as lead times enable proper planning. Longer term planning also enables the Council to demonstrate to the community that while there are competing priorities with insufficient funds, their needs are being catered for in the medium term.

To expand and sustain services is also essential to limit staff costs and contain them within a reasonable percentage of the budget. New staffing must be assessed in the light of providing on the ground service delivery and current staff assessed as to how efficiencies can be gained. Developing and recruiting the right level of skills continues to be a challenging issue.

Sources of Funding

Rates, tariffs and other charges

Details of Rates tariffs are provided in the Rate Resolutions in Section 2 of this document. Details for Refuse tariffs for which the proposed increase is 8% and for

PART 2 – Budget Commentary

electricity charges, the proposed increase is 18.03% and the minor tariff and other charges are provided in the **Tariff Policy – Annexure 2**.

Below is the history of tariff increases and **increases** in major tariffs for 2009/2010 and estimates for the outer 2 years.

Rate/Tariff	2007/08		2009/10	2010/11	Estimated
		2008/09			2011/12
Rates	8.0%		8%	8%	12%
Electricity Tariff	5.6%	5%	25%	18.03%	25.8%
Refuse Tariff	8.0%	6%	8%	8%	17%

The Municipality has adopted a **Tariff Policy** attached as **Annexure 2**, which provides for major services and lists minor services and tariffs.

Changes to minor tariffs are highlighted in bold in the attached document. Most minor tariffs have been increased in line with the global growth rate.

Debt Collection rates for the current and previous financial years are detailed in Section 10 with the average collection rate to February 2010 being 73% which is a decline over previous years. The Credit Control Section has implemented a 19-point arrears collection plan, which targets debtors for the best method of achieving collection. The Credit Control Section is assisted by the Legal Section in the collection of the outstanding debt. With full support for the Credit Control Policy and implementation of the collection plan, it is anticipated the collection percentages could rise by 1-2% for the 2010/2011-budget year. Performance Indicators for each major tariff are provided in **Supporting Table SA 8**.

Investments – cash backed accumulated surplus

The Municipality's own funds currently are in the primary account of the Municipality and have not been invested as detailed in **Supporting Tables SA 16 and SA17**. The municipality has numerous call accounts for its grant funds and funds for specific projects such as the Valuations exercise and the cash backing of the depreciation to purchase new equipment or rehabilitate existing equipment.

The Municipality currently has R30 million in reserves backed by investments, but in accordance with Generally Recognised Accounting Practice, and in an effort to address asset and equipment issues, the Capital Replacement Reserve has been opened in the 2008/2009 financial year.

PART 2 – Budget Commentary

Interest and the principal on all municipal borrowings are repaid at intervals determined in the loan agreement and included in the budget. Therefore sinking funds to repay the principal debt at the end of the loan period is not required.

Housing funds are held in trust on behalf of the Department of Housing and are separately invested.

Grant allocations

Supporting Table SA 18 details gazetted grant allocations for 2008/2009, the current year, 2010/2011 and the outer 2 budget years.

Each of the grants provided by **National Government** is listed below with a brief description of the use of the grant and other relevant information.

1. The **Equitable Share** Grant is a non-conditional Grant which is used towards addressing service delivery backlogs and providing a 'social package' to the poor in terms of free basic electricity and refuse. A trial is also being undertaken for free alternative energy.
2. The **Financial Management** Grant is used to promote and support reforms to financial management and implementation of the MFMA. Primary areas of focus have been the employment of Financial Interns, systems improvement for legislative and Accounting Standard compliance, and addressing finance capacity issues through external staff training. It is planned to use all, retained and future FMG funds towards funding positions in the Finance Departments organogram in the medium term and developing Information Technology requirements, such as the Supply Chain Management Supplier Database. Reporting on expenditure is provided monthly to National Government within the required timeframe and in full compliance with DoRA.
3. The **Municipal Systems Improvement Programme** is used to ally some of the substantial costs involved in implementing the Municipal Property Rates Act.
4. The **Municipal Infrastructure Grant** supplements the Municipality's capital budget to eradicate backlogs in infrastructure. MIG projects are prioritised using the IDP and business plans submitted to DPLG for approval.
5. The **Integrated National Electrification Programme** provides capital funds to address the electrification backlog of permanently occupied residential dwellings, installation of bulk infrastructure and rehabilitation of infrastructure.

Listed below are grants received from **Provincial Government**:

1. Museum Services

PART 2 – Budget Commentary

2. Health – Clinics
3. Municipal Property Rates Act
4. CRU Program
5. Libraries

Sale of assets

R5 million in revenue has been included in year one of the budget from sale of assets, which are land and property sales. It is important to recognise that this revenue is a once off, and cannot be relied on as a sustainable source of income. Accordingly, this revenue should not be used to fund recurrent expenditure such as organisational restructuring or ongoing maintenance and expenses.

Borrowing

Supporting Table SA 17 provides details of borrowing in the previous and current years and projections for the 2009/2010 and the outer 2 budget years.

This borrowing programme is based around the projection of the 3 -Year Financial Model provided with the budget, which uses financial assumptions and trends to assist in estimating the levels of affordable capital programmes that may be provided over the next three years. Both interest and redemption are budgeted for in the model. Naturally if any assumptions in the model change, it will affect the overall picture.

Long-term borrowing will be undertaken for capital programmes only, and there is no anticipated need for short term borrowing as operational expenditure will be funded from revenue and cash.

9 Disclosure on Allocations Made by the Municipality

An amount of R185 000 has been provided for Grant in Aid to Community Groups, Sporting Organisations and organisations assisting the poor. Actual allocations will be in accordance with Council's Grant in Aid Policy and community requests.

10 Disclosure on Salaries, Allowances and Benefits

Details of personnel and salaries allowances and benefits for Councillors and officials are provided in **Supporting Tables SA 22, 23, 24** .

PART 2 – Budget Commentary

11 Monthly Cash Flows by Source

Monthly Cash Flows are detailed in **Supporting Table SA 25**.

12 Measurable Performance Objectives (Revenue Source and Vote)

Annual measurable performance objectives for each revenue source and for by expenditure vote are provided for in **Supporting Table SA 7**.

Annual performance objectives will be converted into quarterly targets for the Service Delivery and Budget Implementation Plan (SDBIP).

13 Disclosure on Implementation of MFMA & Other Legislation

The Municipal Financial Management Act (MFMA) is the most major financial reform in South African Local Government history and forms part of a broader programme in local government reform which includes the Municipal Systems Act, the Municipal Structures Act and the Municipal Property Rates Act. Implementation of the MFMA is being rolled out, but as a high capacity Municipality, most of the provisions of the Act already apply to Emnambithi/Ladysmith.

The Municipality applies monies from the Financial Management Grant towards implementation of the MFMA and capacity building. A MFMA Implementation Plan has been developed and progress is monitored.

The budget process is commenced early in the financial year and is required to be driven by the Mayor and EXCO. A key impact of the MFMA is to move away from a one-year budget to a three-year budget that is linked to the IDP. The budget should be forward looking and provide longer term capital planning to prioritise capital development and assist in addressing backlogs and service delivery in the community.

The MFMA requires that performance on budget delivery be monitored through the use of Service Delivery and Budget Implementation Plans for each municipal department. These were introduced in the 2005/06 Budget and will be further refined for this budget. The Municipal Performance Management System required in terms of the Municipal Systems Act including Performance Agreements for managers reporting to the Municipal Manager, has been developed and rolled out.

PART 2 – Budget Commentary

14 Budgets and SDBIPs – Departmental / Functional (Internal)

The MFMA allocates responsibility for the implementation of the approved budget to the Municipal Manager (s 69) ,who must provide the Mayor with a draft Service Delivery and Budget Implementation Plan (SDBIP) within 14 days of the approval of the Budget.

In line with legislation, Emnambithi/Ladysmith will prepare departmental SDBIP's for the budget including capital programmes.

15 Summary of Detailed Capital Plans

Indication of capital plans will be contained in the SDBIP when completed. The capital plans in the SDBIP where possible, provide detail regarding:

- Information by programme and municipal ward
- MIG sector priorities (refuse, electricity, roads, etc)
- The source of the funding for the capital programme

supporting table SA 28 shows capital expenditure by municipal vote.

Some of the improvements still required in terms of capital budgeting include identifying the total cost of the capital programme, including such items as operating costs, full depreciation, and maintenance and repair. When identified there should be sufficient budget allocated to cover the costs and future financial and non-financial implications considered including the tariff implications. Approval of the capital budget for the medium term will also enable detailed capital works plans to be prepared which indicate delivery by ward over three years.

16 Budgeted Financial Statements

Budgeted Financial Statements are required to be prepared according to the appropriate accounting standards. These are included in the schedules tabled.

A2 to A4

PART 1 - INTRODUCTION BY THE ACTING EXECUTIVE MANAGER:FINANCE (CFO)

In terms of Section 16(2) of the MFMA, I lay before you the 2010/2011 Budget and outer limits in respect of the 2010/2011 Medium Term Budget. The Municipality has consulted the community and various stakeholders on the draft 2010/2011 budget.

The Financial modelling plan of the Operational Budget for 2010/2011 is attached.

I will deal with each category of the draft budget as has been presented. It should be noted that currently, the draft Operational Budget presented is a balanced budget. This overview will be conducted in light hereof. Furthermore, the Capital Budget presented amounts to R68.4 million.

1. Salaries and Allowances – R128 555 960

- (1) The R106 079 441 reflects the cost to council packages of all existing staff and budgeted staff vacancies.
- (2) An increase of 8.5 % has been provided for in terms of the Bargaining Council agreement – R9 016 752 for municipal employees.
- (3) An amount of R5 794 966 has been budgeted for Overtime/ Standby.
- (4) An amount of R11 009 454 has been budgeted for Job Creation workers.
- (5) An amount of R 500 000 has been budgeted for a scarcity allowance for identified employees in the municipality. This exercise still needs to be undertaken.
- (6) R567 432 has been allocated for the performance bonuses of the section 57 employees.
- (7) R1 000 000 has been allocated for the job evaluation results to be implemented.
- (8) Councillor Allowances Existing – R7 829 640 excludes the Central Government Allocation of R2 779 000.
- (9) An 8.5% increase of R901 734 has been budgeted for Councillor Allowances.
- (10) Salaries and Allowances, includes Councillor Allowances of R 11 510 374 amounts to 28 % of the total expenditure. It should further be noted that R16 922 460 are direct labour costs charged out to repairs and maintenance and Capital projects.

2. General Expenses – R 281 284 904 includes

- (1) Free Basic Electricity of R2 663 550 and Free Basic Refuse of R6 856 410 have been provided.

- (2) R11 745 020 has been budgeted for Rates Indigency by application and automatic indigency to residential properties with a land and building value of R70 000 and less.
- (3) The increase budgeted for in terms of Electricity purchases is based on 28.9%, which is R146 122 634.
- (4) R4 687 000 has been provided for the Municipal Property Rates Act. This is funded by the Municipal Property Rates Act grant received from the Central Government.
- (5) R2 000 000 has been provided for emergency relief.
- (6) R8 300 000 has been provided for Electrical Refurbishment.
- (7) R1 243 910 has been allocated for the postage of municipal rates and services accounts.
- (8) R 500 000 has been allocated for pauper burials.
- (9) The Mayor's special programmes has a budgeted amount of R 1 030 000.
- (10) Legal expenses for the Municipality carry a budget of R1 500 000.
- (11) Asset Management has a budget of R1 177 000.
- (12) R1 000 000 has been budgeted for the provision of free basic alternate energy.
- (13) R110 000 has been budgeted for the transport costs to maintain the landfill site.
- (14) R1 000 000 has been budgeted for the transport costs for the collection of refuse and the maintenance of the municipality's appearance.
- (15) R825 000 has been allocated for the transport costs of the traffic officers.
- (16) R920 620 has been allocated for the transport costs of the fire department.
- (17) R300 000 has been allocated for the reconnections and disconnections to be carried out by the Department: Infrastructure and Services.
- (18) An amount of R42 million has been allocated for the funding of the vehicle budget operations.
- (19) The balance is allocated to other general expenses, which are the fixed expenditure costs. Examples of these are telephone, insurance, electricity, water, sewer, refuse, etc.

3. Repairs and Maintenance – R30 186 290 includes

- (1) R800 000 has been allocated for the payment of the license fee and modifications to the Samras system.
- (2) R9 800 400 has been allocated for the roads and R 8 361 170 for the storm water maintenance.
- (3) R250 000 has been allocated for the levelling of the landfill site.

- (4) R1 533 780 has been allocated for the surveillance cameras.
- (5) R800 000 has been allocated for the maintenance of the electricity network.
- (6) R800 000 has been allocated for the substation equipment and building maintenance.
- (7) R1 300 000 has been allocated for the maintenance of the streetlights.
- (8) R187 190 has been allocated for the purchase of new electricity meters.
- (9) The balance of R6 353 750 constitutes repairs to furniture, office equipment, cellphones, buildings, levelling of dumps, plant, grounds, street marking, hydrants and metering.

4. Departmental Charges – R24 094 360

These are internal charges and are recovered via the charge out rate.

Departmental Charges	R24 094 360
Total Charge outs	(R24 094 360)

5. Capital Charges – R20 431 870 includes

Depreciation	R17 742 249
Existing External Loans	R 2 689 621

Depreciation charges are a requirement of GRAP. In terms of the Fixed Asset Register the depreciation charges should be R64m.

The loan of R15.9m will be settled in the 2010/2011 financial year. The settlement amount is approximately R12 000 000.

6. Contributions - R 16 352 640 includes

Bad Debt Reserve	R11 037 230
Leave Reserve	R 1 527 990
Pensioner's Medical Aid	R 1 861 420
Rates Reduction: Pensioners/ Disabled/ Medically Boarded Persons and Child Headed Households	R 1 926 000

The pensioner's medical aid is a post retirement benefit for previous employees of the municipality.

A twenty (20%) rates reduction for pensioners will be granted to any pensioner aged sixty (60) years and older on application if the pensioner's gross household income is R7 500 and less.

A medically boarded person with a gross household income of R7 500 and less will receive a discount of ten (10%) on their rates assessment. This reduction must be applied for in the 2010/2011 financial year.

Disabled persons with a gross household income of R7 500 and less will receive a discount of twenty (20%) on their rates assessment. This reduction must be applied for in the 2010/2011 financial year.

Child headed households with a gross household income of R7 500 and less will receive a discount of one hundred (100%) on their rates assessment. This reduction must be applied for in the 2010/2011 financial year.

A discount of 5% will be granted to all owners of property except for State and PSI , who will pay their rates in advance in full by 31 August 2010.

The Bad Debt Reserve is made up as follows: -

Rates & General	R5 789 790
Electricity	R 5 247 440
TOTAL	R11 037 230

7. Charge Out Rates – R24 094 360

This refers to departmental charges of R24 094 360. R16 673 148 of the charge out has been allocated to the salaries component in respect of labour, which needs to be charged out to Repairs and Maintenance and Capital and Grant funded projects.

8. Revenue – R476 811 664 includes

- (1) In the 2010/2011 financial year, the Municipality will continue with the implementation of the Municipal Property Rates Act No. 6 of 2004 (MPRA). The Rates is based on the market value of the property. The income is derived only from the rate randage; and no rebates have been allocated in this year. All properties except vacant land and the public service infrastructure will benefit from the first R15 000 of the valuation being exempt from rates. The newly rateable properties will be allowed the phased-in billing of rates i.e. in the first year, 25% of the total rates is payable, in the second year 50% is payable, in the third year 75% is payable and in the fourth year, 100% is payable. This is the third year of implementation of the MPRA. Therefore, 75% of the rates billing is payable. A tariff increase of 8% on rates has been applied in the 2010/2011 financial year. For the commercial sector , a tariff increase of 5% has been applied in the 2010/2011 financial year.
- (2) The tariff for the agricultural sector has been increased in line with the Government Regulations.
- (3) A tariff increase of 8% on Refuse has been applied in the 2010/2011 financial year.
- (4) The Rates and Refuse accounts will be combined and paid for by the owner of the property.
- (5) The Local Government Equitable Share, received from Central Government, in the amount of R80 526 000 has been budgeted for. This amount excludes the amount of R2 779 000 for the Councillor Allowance Subsidy.
- (6) Traffic and Licensing amounts to R7 231 392 . A tariff increase of 8% has been applied in the 2010/2011 financial year.
- (7) Electricity Revenue has been increased by 18.03 % in terms of MFMA Circular No 48 that was received from National Treasury. This amounts to R178 686 531.

- (8) An Electricity Availability charge tariff increase of 18.03% will be applied to vacant properties (excluding Ezakheni properties). This amounts to R700 430.
- (9) Other grants total to R 20 426 195 and include the subsidy from Province for the Clinics (R8 845 270), the MSIG (R735 000), the FMG (R1 200 000), the Municipal Property Rates Act (R4 687 000), Re-Capitalisation of the Community Libraries (R90 000), Museum Subsidy (R73 000) and the CRU Programme (R6 000 000).
- (10) Other revenue includes the income generated from the minor tariffs. **The schedule of minor tariffs is included in the Tariff Policy, as 'Annexure 2'.**
- (11) Land sales in the amount of R 5 000 000 has been budgeted for in the 2010/2011 financial year. This income is unsustainable for the following years.
- (12) A new weigh bridge is to be installed at the land fill site. This will generate an income of R200 000.

CAPITAL BUDGET

The Capital Budget is funded as follow:

Municipal Infrastructure Grant (MIG) is R21 082 000. Vehicles to the value of R5 140 000 are to be purchased and funded ex revenue, while R7 560 000 is gazetted for the Integrated National Electrification Programme.

The National Electrification Programme (NEP) (Eskom) of R21 876 000 grant is a grant issued by National Government to Eskom for the electrification of areas in the Emnambithi/Ladysmith municipal area. This is done in consultation with the Municipality.

The MIG priorities are as follows:

Rural Roads wards 3,4,9	1 982 000
High Mast Lights	1 000 000
Bridges Ezakheni to Esidakeni (Planning)	100 000
Bridges Watermeet to Burford (Planning)	100 000
Landfill Site Phase 1 & 2	300 000
Ezakheni Sports Complex and swimming pool	7 600 000
12km Ezakheni A,B,C,D,E	10 000 000

The projects that are not completed in the 2009/2010 year will be carried over to the following year and that year's allocation will be utilised.

Business Plans will be submitted to the Provincial and National Department of Co-operative Governance and Traditional Affairs for approval for the MIG Priority Projects, as identified under the 2010/2011 Capital Budget

INEP priorities are as follows:

Thembalihle In-fills-248 connections	193 200
Umbulwane A,B,C-In-fills-50 connection	1 140 800
Adjacent to Steadville Area D-In fills-50 connections	230 000
Community gardens-20 connections	92 000
Area 'J' Remainder-57 connections	262 000
Area 'H' -500 connections	2 300 000
Area 'E' -184 connections	846 400
Electricfication	2 495 600

Projects and vehicles to the value of R16 840 917 will be purchased ex revenue. The vehicles have been prioritised in terms of the needs of the municipal fleet and the capital and maintenance plans of the municipality.

The Neighbourhood Development Grant from Central Government is funding the development in Ezakheni over a three (3) year period. R1 000 000 is budgeted for the 2010/2011 financial year.

RECOMMENDATION BY THE ACTING EXECUTIVE MANAGER:FINANCE (CFO)

It is recommended that the Draft Operational Budget and Capital Budget for 2010/2011 be adopted by COUNCIL , taking cognisance of affordability, sustainability and the macro allowance of National Treasury.

R A JHETAM

ACTING EXECUTIVE MANAGER: FINANCE (CFO)

Reference: Mrs R Sompersadh

Ext 1293 Date 4 May 2010

**EMNAMBITHI/LADYSMITH
MUNICIPALITY**

2010/2011 Medium Term Budget

PART 2 – Budget Commentary

1. Mayoral Budget Speech

I am pleased to stand here before you to present the 2010 / 2011 budget under the theme “ Working together to speed up Service Delivery”.

Over the past few months, a lot of Municipalities had faced Services Delivery protests from the communities which have been waiting for services for a very long time. This resulted in the formation of a commission by the Minister of Local Government and Traditional Affairs. This commission visited all 283 Municipalities to find out what problems were being experienced.

Last year in October ,the President of the Republic of South Africa, Mr. Jacob Zuma invited Mayors and Municipal Managers to discuss issues that were pertinent to Local Government. These two incidents resulted to the cabinet endorsing the MTAS. Municipalities were advised not to use a “ One size fits all” approach in coming up with their Turnaround Strategy.

I am pleased to announce that our MTAS is complete and we have tried to align it with our 2010 / 2011 budget. We want to ensure that this strategy becomes a living document with clear deliverables which can be measured.

One is mindful of the backlogs that we face with minimal resources that we have. We hope that the National Government will be able to review the funding model (especially the Local Government Equitable Share Grant) to address the concerns that we raised with both the President and the Minister of Local Government and Traditional Affairs.

The 2010 /2011 Medium Term budget has been taken to the communities for consultation. This budget document is very comprehensive and provides details of the budget. During the consultations, concerns, proposals and suggestions were raised. I must say that we have attempted to accommodate as many as we could, while also being mindful of creating a balance.

Over the past four years, we have attempted to create budgets that are pro poor. This one also accommodates the poorest of the poor. I must emphasise that it is not enough for the imbalances out there in our communities which were neglected for many years.

Last year, we gave a rates holiday for our business community. This was an attempt from the Municipality to ensure that we don't kill businesses that are operating in this town. I know that our attempts may not be good enough but I hope our business community does appreciate what we are doing.

PART 2 – Budget Commentary

This year, as a way of extending a helping hand to the business sector, we have decided to increase business rates by 5% and the residents by 8%. This has happened after lengthy discussion and cuts. Let me remind you that the first draft had 15% across the board.

We have also requested our officials to come up with revenue enhancement Strategies so that we don't rely on the rates as the only revenue that we have as a the Municipality.

Hon. Speaker, Cllrs, Officials and Memembers of the Community, allow me to highlight some significant points of our 2010 / 2011 Medium Term Budget

Capital Budget

Over the past three financial years, the Municipality has budgeted a staggering R 140 million for capital which has, and is being spent in critical areas such as rural roads, community facilities in areas where they are sorely lacking, electrification of new housing areas, much needed upgrade of electrical supply and purchase of plant and equipment to enhance improved service delivery.

The 2010/2011 budget will focus on the following areas:

- Upgrading of Electrical Infrastructure and to provide connections,
- Tarring of township roads,
- Construction of gravel roads and low water crossings,
- Erection of community and sports facilities (parks, halls, sports fields, swimming pool, etc),
- Upgrading and beautification of the CBD, including roads and sidewalks,
- Electrical systems strengthening,
- Construction of housing for low income groups,
- Installation of surveillance cameras in the CBD, Steadville, Colenso and Ezakheni,
- Implementing capital projects, and using labour intensive methods, where possible, to enhance job creation, and
- The purchase of plant and equipment to enhance improved service delivery.

The allocations to our capital budget are drawn from the priorities that were identified during the IDP community consultation meetings that were undertaken in February 2010. A total of R68.4 million has been allocated to the capital programme for the 2010/2011 budget.

Listed below is the detailed capital programme for the 2010/2011 budget year:

Vehicles totalling R5 140 000 will be purchased.

Emnambithi/Ladysmith Municipality's
2010/2011 Medium Term Budget

PART 2 – Budget Commentary

<u>Capital Budget 2010/2011</u>	-
	2010/2011
Revenue funded assets	
Economic Development	
Bluebank Cemetery (Ablution, Road, Water & Fence)	1 500 000
Ndomba Cemetery(Ablution, Road, Water & Fence)	1 500 000
Ezakheni Cemetery(Ablution, Road, Water & Fence)	1 500 000
Sub-total	4 500 000
Vehicles Budget	
1X Refuse Compactors waste	1 750 000
2 X 4 tonner trucks-parks	450 000
2 X LDV Bakkie-Parks	360 000
2 X LDV Bakkie-Waste	360 000
2 X Tractors-Public Participation	560 000
1 X LDV Bakkie-Plumber	180 000
1 X LDV Bakkie-Nuisance Inspector	180 000
TLB	550 000
Sub-total	4 390 000
Total Economic Development	8 890 000
Public Safety	
Security	
Vehicle Tracking System	50 000
Sub-Total	50 000
Disaster Management	
Disaster Management Plan	80 000
Emergency Tents	60 000
Radio Batteries	16 917
Sub-Total	156 917

Emnambithi/Ladysmith Municipality's
2010/2011 Medium Term Budget

PART 2 – Budget Commentary

Fire Brigade	
Replace 12X Drager BA Sets	180 000
Upgrade Jaws of life unit	200 000
Sub-Total	380 000
Traffic	
Street names (Steadville)	8 000
Street names (Ezakheni)	8 000
Analog number plate recognition	228 000
Sub-Total	244 000
Licensing	
Furniture & Equipment (new licensing building)	85 000
Equipment -for testing station	50 000
Sub-Total	135 000
Total	965 917
Electrical Engineering Services	
Plant & Equipment	
Vehicle-Hi-Rider bakkie	175 000
Sub-Total	175 000
Operations & Maintainance	
Hoist for Street light truck	175 000
Street light truck	400 000
Sub-Total	575 000
Total	750 000
Corporate Services	
Renovation of old Church to training facilities	250 000
Sub-Total	250 000
Total	250 000

Emnambithi/Ladysmith Municipality's
2010/2011 Medium Term Budget

PART 2 – Budget Commentary

Mayors Office	
Furniture	85 000
Sub-Total	85 000
Total	85 000
Borough Engineer	
Revenue Funded Projects	
Extension of Lister Clarence Building	2 300 000
Community hall-Watersmeet phase 2	950 000
Transport plan	500 000
Testing Station	1 200 000
Community hall-Emcitsheeni phase 2	950 000
Sub-Total	5 900 000
Total	5 900 000
Total Revenue funded projects	16 840 917
<u>Electrical Engineering Services</u>	
Design,Planning & Projects (DME funded projects)	
Thembalihle In-fills-248 connections	193 200
Umbulwane A,B,C-In-fills-50 connection	1 140 800
Adjacent to Steadville Area D-In fills-50 connections	230 000
Community gardens-20 connections	92 000
Area 'J' Remainder-57 connections	262 000
Area 'H' -500 connections	2 300 000
Area 'E' -184 connections	846 400
Electricfication	2 495 600
Sub-Total	7 560 000
Intergrated National Electrification Programme ESKOM	21 876 000
Borough Engineer	
Grant Funded Projects	
Neighbourhood development grant	1 000 000
	1 000 000

PART 2 – Budget Commentary

MIG Allocation	
Rural Roads wards 3,4,9	1 982 000
High Mast Lights	1 000 000
Bridges Ezakheni to Esidakeni (Planning)	100 000
Bridges Watermeet to Burford (Planning)	100 000
Landfill Site Phase 1 & 2	300 000
Ezakheni Sports Complex and swimming pool	7 600 000
12KM Ezakheni A,B,C,D,E	10 000 000
Total	21 082 000
Total grant funded projects	51 518 000
Grants & Subsidies	51 518 000
Own Revenue	16 840 917
Total capital budget	68 358 917

Funding sources for the capital programme are as follows:

- R 21 million from the Municipal Infrastructure Grant
- R 21.9 million from the National Electricity Programme (done by Eskom)
- R 16.8 million from revenue
- R 7.6 million from the National Electricity Programme
- R 1 million from the Neighbourhood Development Grant.

Operational Budget

Indigency will be provided to all households with a land and building value of R70 000 and less. These households will receive free services and rates. The indigency registration period would be ongoing with no cut off date.

Households whose gross income is less than two times the state pension per month can also apply for indigency relief. It is estimated that households will receive R 18 million in relief via this programme.

Pensioners 60 years of age or older and with a gross household income of R7 500 and less will receive a discount of 20% on their rates assessment. This rebate must be applied for during the 2010/2011 financial year.

PART 2 – Budget Commentary

Medically Boarded persons with a gross household income of R7 500 and less will receive a discount of 10% on their rates assessment. This rebate must be applied for during the 2010/2011 financial year.

Disabled persons with a gross household income of R7 500 and less will receive a discount of 20% on their rates assessment. This rebate must be applied for during the 2010/2011 financial year.

Child headed households with a gross household income of R7 500 and less will receive a discount of one hundred (100%) on their rates assessment. This reduction must be applied for in the 2010/2011 financial year.

A discount of 5% will be granted to all owners of property except for State and PSI , who will pay their rates in advance in full by 31 August 2010.

An amount of R 83.3 million has been received from National Government for the Local Government Equitable Share.

The total expenditure for salaries in this budget is R 128 .9million, and is inclusive of Councillor Allowances. An 8.5 % salary increase has been provided for the officials and this is in terms of the increase as agreed by the South African Local Government Bargaining Council and the two unions. An 8.5% increase has been budgeted for Councillor Allowances.

The increase in tariffs is as follows:

Rates: 8%
Commercial Rates : 5%
Electricity: 18.03%
Refuse: 8 %

The National Treasury has issued the guideline on the bulk electricity purchase tariff increase. In line with this, the Municipality has included a 28.9% increase on the Electricity purchases.

The following guidelines have been applied to the 2010/2011 tariffs:

- The ability of the community to pay for services received.
- The effect on the consumer accounts.
- Realistic revenue estimates taking into consideration actual income available and estimated growth percentages.
- Identification of grants from national, provincial and other agencies.
- The impact of inflation and other cost increases.
- The requirements of the tariff policy.
- The requirements of the Municipal Property Rates Policy.

PART 2 – Budget Commentary

- Credible collection rates and collection improvement targets.

Tariff increases are necessary for the ongoing provision of services and facilities, and to support the extension of services and facilities to areas that have previously been neglected.

The Municipality has embarked on new and innovative ways in which to increase our revenue sources as well as to improve our collection rates.

The municipality has engaged in ventures to attract investment in the Emnambithi/Ladysmith area. Land was made available to the private sector around the Sports Complex as well as the Helpmekaar Road in Steadville for housing projects and commercial development. The municipality has also encouraged commercial development in Ezakheni and there are plans to construct a shopping complex in the area. The Municipality has secured R62.5 million from the Neighbourhood Development Programme Grant administered by National Treasury to upgrade the Ezakheni area.

The Municipality implemented the Municipal Property Rates Act on 1 July 2008. An extensive community consultation programme was undertaken to educate the community on the impact of approved policy, and the benefits that it can bring to our municipality. The municipality has implemented four supplementary valuation rolls to date.

In closing, I believe that the budget presented will be able to enhance the quality of service delivery throughout the municipal area.

PART 2 – Budget Commentary

2. Draft Budget Related Resolutions

2.1. Council resolves that the annual budget of the municipality for the financial year 2010/11; and indicative for the two projected outer years 2011/12 and 2012/2013 be approved as set-out in the following schedules:

2.1.1. Table A1 Budget Summary.

2.1.2. Table A2 Budgeted Financial Performance (revenue and expenditure by standard classification).

2.1.3. Table A3 Budgeted Financial Performance (revenue and expenditure by Municipal vote).

2.1.4. Table A4 Budgeted Financial Performance (revenue and expenditure).

2.1.5. Table A5 Budgeted Capital expenditure vote, standard classification and funding.

2.1.6. Table A6 Budgeted Financial Position.

2.1.7. Table A7 Budgeted Cash flows.

2.1.8. Table A 8 Cash backed reserves/ accumulated surplus reconciliation.

2.1.9. Table A9 Asset Management.

2.1.10. Table A 10 Basic service delivery measurement.

2.2 Council resolves that property rates reflected below and any other municipal tax reflected in the **Annexure 2 ‘Tariff Policy’** and **Annexure 4 ‘Municipal Property Rates Policy’** are imposed for the budget year 2010/11.

Category	Tariff	Exemption	Phasing in	Impermissible per property R	Rebate
Residential	0.0117	No	No	15 000	No
Industrial and Business	0.021	No	No	15 000	No
Agricultural	0.0029	No	Yes	15 000	No
Public service Infrastructure	0.0029	Yes		30% of valuation	No
Vacant Land	0.0486	No	No	0	No
Rural Communal	0	Yes			No

PART 2 – Budget Commentary

Game Hunting and /or Eco Tourism	0.0117	No	Yes	15 000	No
Municipal Domestic	0	Yes			No
State	0.0216	No	No	15 000	No
Land Reform Beneficiaries who have has title to the property </>10 years		Yes			No
Public Benefit Organisations	0.0029	Yes			No
Religious		Yes			No
Industrial Estate with an estate and serviced by Agent	0.0163	No	No	15 000	No
Industrial Estate with an estate and serviced by owner via Agent	0.0163	No	No	15 000	No
Ingonyama Trust Board		Yes			No
Public Open Space		Yes			No
Municipal Vacant Land		Yes			No

2.3 All newly rateable properties are subjected to the phasing in terms of Section 21 of the Local Government: Municipal Property Rates Act of 2004

2.4 That the refuse tariffs be increased by 8% with effect from 1 July 2010 and that the increased tariffs be charged and levied with effect from 1 July 2010 in terms of chapter 4 of the Municipal Finance Management Act No 56 of 2003.

PART 2 – Budget Commentary

- 2.5. That should it be necessary, a Municipal adjustments budget be prepared in accordance with Section 28 of the Municipal Finance Management Act No 56 of 2003.
- 2.6 That funds from electricity surplus be applied to fund other municipal expenditure.
- 2.7 That interest at the rate of prime plus 2.5% per annum be levied on all overdue municipal accounts.
- 2.8 Council resolves that tariffs and charges reflected in **Annexure 2 'Tariff Policy'** are approved for the budget year 2010/11.
- 2.9 Council resolves that the measurable performance objectives for revenue from each source and for each vote reflected in **Supporting Table SA7** are approved for the budget year 2010/2011.
- 2.10 Council resolves to adopt the amended Integrated Development Plan **subject to amendments resulting from the consultation and IDP assessment.**
- 2.11 Council resolves that the amended policy for Credit Control, Debt Collection and Indigent Polciy, the Municipal Property Rates Policy, the Tariff Policy, the Investment Policy and the Incentive Policy is adopted for the budget year 2010/2011.
- 2.12 Council notes the draft SDBIP will be tabled to Council in May 2010 for approval by the Mayor.
- 2.13 Pensioners 60 years of age or older and with a gross household income of R7 500 and less will receive a discount of 20% on their rates assessment. This rebate must be applied for during the 2010/2011 financial year.
- 2.14 Medically Boarded persons with a gross household income of R7 500 and less will receive a discount of 10% on their rates assessment. This rebate must be applied for during the 2010/2011 financial year.
- 2.15 Disabled persons with a gross household income of R7 500 and less will receive a discount of 20% on their rates assessment. This rebate must be applied for during the 2010/2011 financial year.
- 2.16 Child headed households with a gross household income of R7 500 and less will receive a discount of one hundred (100%) on their rates assessment. This reduction must be applied for in the 2010/2011 financial year.
- 2.17 Consumers excluding state and PSI be granted a 5% discount should the total rates bill be paid in full in advance by the last working day in August for the 2010/2011 budget year.

PART 2 – Budget Commentary

- 2.18 Bridging finance for the capital programme must be made available.
- 2.19. The electricity tariffs be increased by 18.03% subject to approval by NERSA.
- 2.20. The budget be submitted to the relevant treasuries subject to the changes suggested by Council.
- 2.21. Security deposits be paid in cash to the Municipality may vary according to the risk. The average Deposit for new connections be determined on application for electrical services. The Municipal Manager can increase deposits at any time and at his sole discretion not to be more than two and half times the monetary value of the most recent consolidated accounts of the premises for which an application is made.
- 2.22. Implementation of the capital programme be subject to the availability of funds.

3 Executive Summary

This is the fourth budget of the Council elected on 1 March 2006. It is a continuation of the process of continuous improvement in budgeting and moves towards a longer-term financial planning outlook and Medium Term Income and Expenditure Framework through the consideration of a 3-year budget.

Consultative Process

The 2010/2011 Budget was tabled by the Mayor and it was taken to the public for comments. A community consultation process was undertaken primarily through public meetings throughout the Municipal area.

Comments from the Public Consultation Meetings were analysed and taken into consideration prior to the final budget being considered by the Municipal Council.

Alignment with government priorities

In order to ensure integrated and focused service delivery between all spheres of government it is important for the Municipality to align its budget priorities with that of National and Provincial government. Both National and Provincial government place a high priority on infrastructure development, economic development, efficient service delivery and poverty alleviation.

PART 2 – Budget Commentary

Past & current performance, achievements, major policy initiatives and challenges

Emnambithi/Ladysmith Municipality has made good progress in a number of areas since the incorporation process in 2000. In these recent years of developmental and democratic government, a high focus has been necessary on financial sustainability. This required careful management of spending and monitoring service delivery in terms of affordability.

Despite tight financial constraints service delivery has been ongoing with the provision of new roads, extending the electricity network into desperately needed areas, maintenance of the current road and electricity networks, providing housing in conjunction with Provincial Government, collecting and managing refuse and providing health care and clinics.

In the 2008/2009 year alone, 80 km of gravel roads were constructed and rehabilitated. Arterial roads around the CBD were resurfaced and Murchison Road was rehabilitated. Contractors were appointed to construct 5km of roads in Sections A and E in Ezakheni. Approximately 15 low water crossings and pedestrian bridges were constructed as well as the bridge across the Klip River linking Ndomba to Umbulwane. The frame structure and surface slab was laid for the Emakhukwini Community Hall. Phase 2 has commenced which is to complete the outer structure. The building of the Ezakheni Sports Stadium phase 1 has been completed and phase 2 is about to commence. This project is funded from grants. Much needed upgrading of the plant fleet continued with the purchase of new vehicles from the state tender. The purchase of other heavy plant is being investigated, as this could assist in the projects set out for the 2010/2011 year.

Electricity was connected to 265 new households during the year. Progress on the Steadville area 'C' and Ntombi Camp projects is well underway which will mean electricity for another 500 households. Electrification of the Roosboom area is being undertaken. 30 high mast lights have been installed in the rural areas such as Peacetown and Watersmeet. There are further projects planned for the connection of another 334 households.

Addressing the serious backlogs in providing adequate housing continues as a critical focus for our Municipality, which is addressed in conjunction with the Provincial Department of Housing. Numerous housing projects are in progress, 3 500 houses in the St Chads Housing project, 170 houses in Steadville Area E and in Ezakheni. Projects about to commence include 450 houses in Steadville Area H. Various rural housing projects are also being investigated. The Municipality has applied for emergency funding of R18 million to repair 600 houses damaged by the violent storms in the municipal area. The Mayor also embarked on a project to assist in the building of houses for the community in St Chads.

PART 2 – Budget Commentary

Clinic services were provided throughout the Municipality and HIV/Aids treatment was provided to more than 5000 patients in need during the year.

The Municipality is participating in a countrywide financial reform programme for Local Government. The spearhead of this programme is the Municipal Financial Management Act (MFMA), which aims to modernise financial management and place it on a sound footing to be able to deliver satisfactory services to its customers.

The object of the MFMA is to secure sound and sustainable management of the financial affairs of the Municipality through transparency, accountability, planning and appropriate allocation of responsibility. In accordance with the Act, the Municipality has placed considerable emphasis on improving reporting systems to management and elected members. This is to ensure key stakeholders are adequately informed to be able to make the right decisions about the financial management of the Municipality.

The 2008/2009 Financial Statements have been completed and audited. The Municipality received a qualified Audit Report from the Auditor-General.

Various Local Economic Development projects including car washes, community gardens, ploughing of fields and the aloe and berg tea projects were pursued during the year.

The Municipality has purchased the much needed fire engine to provide a critical service to the citizens of Emnambithi/Ladysmith and is currently undertaking to provide an additional testing centre for the issuing of drivers licenses to accommodate the increased demand.

One of the key challenges for the future that the Municipality faces is increasing its payment levels. Almost 73% of the Municipality's budgeted revenue is from local rates and payments for services. Non-payment directly threatens the municipality's ability to deliver services to its residents in the future. With extensive indigency measures in place, service delivery is dependent on Council implementing the Credit Control Policy on those residents that can afford to pay. With the implementation of the Municipal Property Rates Act there is a change in the rates tariff structure in that only a randage will be levied against the market value of the property and no rebates will be granted.

Another critical challenge is providing adequate infrastructure and assets. As a Municipality we are exceedingly aware of the community's needs for new infrastructure such as roads, footbridges, street lighting, community sport grounds, halls and other facilities.

However with limited funds, and infrastructure growing each year, there is less money to spend on maintaining the roads, stormwater, streetlights, community facilities and assets such as Council's trucks, road plant and other vehicles. Sometimes grant

PART 2 – Budget Commentary

funds are provided to build the initial asset, but there are no ongoing grants to maintain the assets. Where assets are inadequately maintained, they quickly deteriorate, and either become irreparable or very expensive to repair. Regular maintenance is the cheapest option, but unfortunately this Municipality does not allocate sufficient funds for regular maintenance on the huge amount of infrastructure and assets that it controls.

Expanding service delivery infrastructure and maintaining existing assets remains one of our greatest challenges.

The municipality received R14.1 million in terms of the Small Town Rehabilitation Grant and this funding must be spent by end of March 2010. The projects that will be focussed on are: The Town Centre Beautification, Midblock Parking, Trading Stalls in Queen and Forbes streets , Surveillance Cameras , Sidewalks in the CDB area and Upgrading of the Wimpy and Sondela parks.

Selected highlights from the operational budget and capital program

Electricity infrastructure is receiving a much-needed boost with the provision of R 8.3 m for refurbishment. The electricity service has increased the collection of outstanding monies through the appointment of a contractor to perform the task of removing meters and disconnecting services for non payment.

Emergency relief has been allocated R2 m to assist our most needy in times of natural disaster, which often occurs, with the damage of houses in the stormy season.

The Municipality will provide the service of refuse removal in the Ezakheni area. This has necessitated the purchase of two (2) bakkies and a refuse compactor in addition to the vehicles that were purchased last year.

The maintenance of the roads and the stromwater drains will be an ongoing process. Maintenance of the electricity reticulation will also be addressed through the upgrading of substations and electrical equipment.

The provision for bad debt has been increased to R11million for the 2010/2011 as the payment levels have decreased.

The main focus for the capital budget is the provision of infrastructure in specific areas from grant funding and loans. The upgrading of the vehicle fleet is also a high focus of the 2010/2011 year.

PART 2 – Budget Commentary

The total capital budget for 2010/2011 is R68.4 million

R 11.9 million to roads.

R 7.6 million to electricity. R21.9 million will be allocated to Eskom by the National Government for the electrification of the townships.

R 5.1 million to the purchase of vehicles.

R1.2 million for the new testing station.

R7.6 million for the Ezakheni sports complex.

Provision for capital in the outer years 2 and 3, is dependent on funding in each year in terms of loans, grants and cash reserves.

Supporting Documentation

Section 17(3) of the MFMA requires certain documents to accompany the budget. The table below lists the necessary requirements and where these are contained.

Legislative Requirement	Compliance Section
(a) Draft resolutions-	
(i) approving the budget of the municipality;	Section 3
(ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and	Section 3
(iii) approving any other matter that may be <u>prescribed</u> ;	Section 3
(b) measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;	Annexure 4 Supporting Table 10
(c) a projection of cash flow for the budget year by revenue source, broken down per month;	Annexure 4 Supporting Table 10
(d) any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act;	Section 8
(e) any proposed amendments to the budget-related policies of the municipality;	Section 9
(f) particulars of the municipality's investments;	Supporting Table 4a
(g) any <u>prescribed</u> budget information on municipal entities under the sole or shared control of the municipality;	Not Applicable
(h) particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;	Not Applicable
(i) particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;	Not Applicable
(j) particulars of any proposed allocations or grants by the municipality to-	
(i) other municipalities;	Not Applicable
(ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;	Not Applicable
(iii) any other organs of state;	Not Applicable

PART 2 – Budget Commentary

(iv) any organisations or bodies referred to in section 67(1);	Section 12
(k) the proposed cost to the municipality for the budget year of the salary, allowances and benefits of-	
(i) each political office-bearer of the municipality;	Supporting Table 4a
(ii) councillors of the municipality; and	Supporting Table 4a
(iii) the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;	Annexure 4 Supporting Table 4a
(l) the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of-	
(i) each member of the entity's board of directors; and	Not Applicable
(ii) the chief executive officer and each senior manager of the entity; and	Not Applicable
(m) any other supporting documentation as may be prescribed.	Not Applicable

4. Budget Process Overview

Political oversight of the budget process

The MFMA charges the Mayor and EXCO with the responsibility of ensuring the budget complies with applicable legislation and considers the needs of the community including:

- Providing political guidance over the budget process and the priorities that guide its preparation,
- Ensuring the budget is tabled and approved on time,
- Ensuring the Service Delivery and Budget Implementation Plan and Annual Performance Agreements are developed and approved, and
- Publicity and consultation on the budget is undertaken

Schedule of Key Deadlines relating to budget process [MFMA s 21(1) (b)]

Council adopted the Budget/IDP Time schedule in August 2009.

The timetable and process for tabling and approval of the budget is as follows:

ACTION	WHO	WHEN
Budget Workshop(All Councillors)	MF	12/03/10
Consider tabled Budget	EXCO/Council	24/03/10
Public advertisement, press release etc to	MF	25/03/10

PART 2 – Budget Commentary

community advising of tabled Budget		
Budget Consultation	MF /EMED	March/April 2010
Collate feedback from community	MF/EMED	March/April 2010
Budget Workshop	MF	6 May 2010
EXCO to consider budget and community feedback	EXCO	13 May 2010
Council considers and adopts Budget and reviews draft SDBIP's and Performance Agreements	Council	13May 2010

Process used to integrate the review of the IDP & preparation of the budget

The Time Schedule adopted by Council in August 2009 provides for an integrated Budget and IDP Preparation Process.

Additionally, the introduction of the Service Delivery and Budget Implementation Plans has enhanced matching of IDP priorities to the operational and capital budget, as well as setting performance targets for IDP objectives.

However, actual integration of the IDP and Budget process, including review by elected members and the community of the IDP strategies and priorities and translating these to the budget requires improvement, particularly in terms of capital programmes.

Models used for prioritising resource allocation

Community participation is an effective method of identifying priorities, but it is also critical to develop an IDP Prioritisation/Project Evaluation model for determining budget allocations. This model would take into account community needs, project profiles and assessment, available resources, strategic planning, national, provincial and local policy and good municipal management. Development and approval of Financial Planning and Annual IDP Review Guidelines will also assist this process.

Consultation

In accordance with the Municipal Systems Act and the Municipal Financial Management Act, consultation was undertaken with the local community primarily through public meetings in all wards.

Copies of the draft budget were provided to other levels of government for their comment.

PART 2 – Budget Commentary

5. Alignment of Budget with Integrated Development Plan

The IDP is undergoing review as required by the Municipal Systems Act and MFMA. The 2005/2006 IDP process marked the beginning of a new five (5) year development program for the Municipality in line with the new term of office for the Council.

There is little change to the status quo and much of the information is deduced from the 2001 statistics as in the previous IDP.

Unlike the previous process, there has been consideration given to issues raised in Local Government Summits such as:

- Cooperative governance
- Women, youth, and disabled persons
- The role of infrastructure in poverty alleviation
- The relationship between Traditional Leadership and Municipalities

The above issues have been now identified in the IDP but still require further and serious attention.

The revised Spatial Development Framework has been incorporated and should serve as a vision for Council's development programme. The Economic, Tourism and Agricultural plans have also been incorporated in the IDP.

Implementation of the Performance Management System commenced in July 2006 and significant progress has been made particularly with Performance Agreements for Senior Staff and Performance Management Framework adopted by Council. .

There is now convergence and understanding from all role-players that the IDP should inform the budget process. The needs appearing on the IDP have been manipulated into programs that influence the division of the Capital Budget.

The budget will translate community inputs into a programme of action for the next three years. Therefore this budget should in essence address the following key priority issues as determined by the Community in the IDP:

- | | |
|------------------------|-----------------------|
| • Roads | • Electricity |
| • Community Facilities | • Unemployment |
| • Bridges | • Refuse Removal |
| • Poverty Alleviation | • Community Safety |
| • Storm Water | • Skills Development |
| • Aesthetics | • Information Signage |
| • Soil Erosion | |

Council acknowledges that the IDP has guided the Budget Process.

PART 2 – Budget Commentary

It is important that plans are within the financial capacity of the Emnanbithi/Ladysmith. Part 3 supporting tables 1 to 3 **shows the high level link between the budget and the IDP.**

6 Budget Related Policies Overview and Amendments

Listed below are the Municipality's budget related policies. These policies are available from the Municipality on request. Some policies including the Debt Collection, Credit Control and Customer Care, Municipal Property Rates Policy , Investment Policy, Tariff policy and the Incentive Policy are under review. Major changes will be highlighted and provided as part of the budget process.

Current Budget Related Policies

- Accounting Policy
- Credit Control, Debt Collection and Customer Care Policy (including Indigent Policy)
- Investment Policy
- Supply Chain Management Policy
- Tariff Policy
- Promotion, Recruitment and Selection Policy
- ABET Policy
- Workplace Policy on HIV/AIDS
- Workplace Policy on Substance Abuse
- Study Leave Policy
- Employee Assistance Program Policy

Employment Policies under development

- Job Creation Policy
- Email Policy

Policy Amendments

The major changes to the attached policies are highlighted in the policies.

7 Budget Assumptions

This section provides information on the assumptions used in preparing the budget. In most cases, the information is provided for the 2010/2011 budget year, and generally the same assumptions are be applied to the 2 projected outer years.

PART 2 – Budget Commentary

General inflation outlook and its impact on municipal activities

The 2009 medium term outlook for the South African economy remains positive with the general inflation forecast advised by National Treasury projected at 6.7% for the three year forecast period.

In the 2009/2010 year the CPIX in February 2010 was at 6.7% from the Reserve Bank of South Africa. Therefore the Municipal 2010/2011 tariff increase of 8% for refuse and rates. The increase for electricity tariffs is 18.03%, which is controlled by NERSA. This increase guideline has been released by National Treasury.

Credit rating outlook

In September 2006, Emnambithi/Ladysmith Municipality was pleased to receive a long-term credit rating of BB+. Some of the findings of the credit rating included:

- A stable outlook rating and a short term rating of B;
- The municipality's debt burden is low at 2.5% with new borrowings increasing it to 10%, this is well within the municipality's affordability limit;
- The debtor's collection rate for the 2009/2010 financial years is at 73%
- Our rating of BB+ was the highest achieved in a comparison done in the report with five municipalities.

Interest rates for borrowing and investment of funds

When the Municipality last accessed loan funds in March 2008, it was able to access at an interest rate of 12.01 %. It is not expected that there will be a major variation on these rates if loan proposals are sought from the market.

Rates, tariffs, charges and timing of revenue collection

Accounts for rates, refuse and electricity are issued on a monthly basis and are due and payable within 30 days of issue. Recovery procedures for non-payment may be commenced within 1 day of payment default.

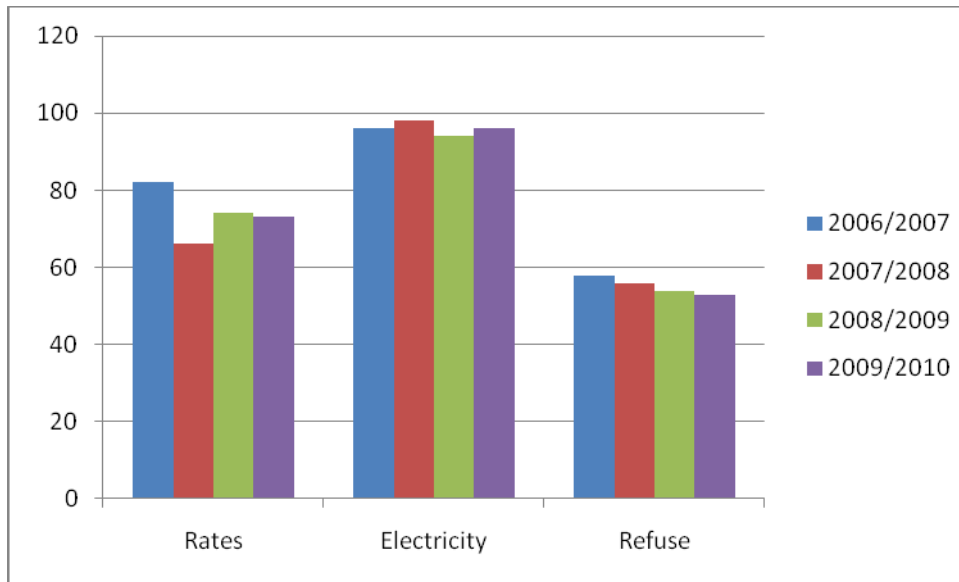
Growth in tax base of the municipality

The rate base of the Emnambithi/Ladysmith has increased due to the implementation of the Property Rates Act. This incorporates the areas that were not rated previously. The newly rateable properties will be in the second year of their compulsory phasing in period.

Collection rates for each revenue source

Listed below are collection rates for major revenue sources for the current and previous financial years.

PART 2 – Budget Commentary



As the graph indicates, there has been a decline in the collection rates of the electricity and refuse services. The dedicated legal team and credit control section of the municipality has managed to increase the collection rate of the Rates service. However, diligent application of the Credit Control Policy in 2010/2011 is needed to improve this trend as well as collect the historical debt.

Price movements on specifics e.g. bulk purchases of electricity, fuel etc

Eskom has announced a 28.9% increase, and this will be applied to the bulk purchase of electricity.

Average salary increases

An estimated 8.5% salary increase for officials and 8.5% for councillors has been budgeted for.

Industrial relations climate, reorganisation and capacity building

The industrial relations climate in the Emnambithi/Ladysmith Municipality is sound, as most of the outstanding issues such as restructuring; the placement of staff and the job evaluation process have been completed. A good working relationship exists between management and unions. The Municipal Manager has addressed all the outstanding issues amicably and the process of implementing the job evaluation results will be done as soon as the salary curve has been issued by SALGA.

PART 2 – Budget Commentary

Capacity building is undertaken through the Skills Development Plan, which is updated and submitted to all relevant parties on an annual basis. Employment Equity plans also makes provision for upward mobility as a means of capacity building.

Indigency and free basic services

Currently around 6 000 poor households received a 100% relief on their rate accounts. In total, indigent households will receive an estimated R 21.1 million in financial relief. Indigency is available by application as well as to those properties that have a land and building value of R70 000 or less.

All indigent consumers receive free basic electricity in the amount of 50kWh per month and R 2.6 million has been budgeted for this in the 2010/2011 budget year. R 1million has been budgeted for free alternate energy which will be distributed to the communities that do not have access to the electricity network.

All indigent households currently receive a free refuse service, which is valued at around R6.8 million in the 2010/2011 financial year.

Impact of national, provincial and local policies

Strengthening the link between policy priorities and public expenditure is the core of medium term budgeting. Public expenditure translates policy priorities into delivery of services to our community and therefore is a key tool for accomplishing public goals.

One of the key national priorities is the improvement and accessibility of services to the community, which incorporates the need to create new and rehabilitate existing infrastructure. The provision of basic infrastructure to disadvantaged communities is needed.

It is important that within the Municipal budget, new proposals for both the operating and capital budget demonstrate a clear link between their expected outputs and key government objectives including national, provincial and local priorities.

Our IDP is aligned to the National Performance Objectives and the priorities arising from the recent community consultation are listed as part of the tabled capital budget.

Ability of the municipality to spend and deliver on its programmes

A number of factors impact on the ability of service delivery departments to deliver on programmes. These issues and risks are mainly focused on the lack of adequate resources and planning and include:

PART 2 – Budget Commentary

Staffing – Skill Shortages

There is a shortage of skilled and experienced Technical Staff, as well as Artisans/Operators. When vacant posts are advertised, the experienced and skilled incumbents do not apply, as the salary scales in smaller towns are not attractive.

Staffing - Staff Shortages

Although the boundaries were increased with demarcation in 2000, no additional staff was appointed. However, the area/boundaries have increased considerably and provision is needed in the budget to appoint appropriate incumbents.

Competing priorities within the organisation with skill and staff shortages can also severely affect the ability of the municipality to deliver, as is the case with too few electricians being available and required for both electrical functions, as well as providing credit control through disconnections.

To alleviate these problems, Council needs to consider implementing Learnerships as well as Contractor Development Programmes to enable and implement Capital and Maintenance Programmes, as skill levels in the community are limited.

Plant and Equipment

The average age of the vehicles can be well over 10 years and the average age of heavy plant can be 20 years. There are constant breakdowns, which are affecting service delivery. Small equipment is old and needs to be replaced as the breakdowns also affect service delivery.

Planning and Direction

Development of a fair and appropriate model for resource allocation and commitment to long term planning will improve the ability of the Municipality to delivery and sustain services and infrastructure. Clear and consistent policy from Council assists in speedy service delivery for the entire community.

Legislation and Organisational Change

New Legislation has resulted in change of operational procedures and new processes have to be put in place. Due to vacuums that have been created as a result of new Legislation, staff morale is low, i.e. Job Evaluations, restructuring etc. The Municipal Property Rates Act has changed the structure of the rates tariff in that no rebates are allowed and the rates are now calculated on the market value of the property.

PART 2 – Budget Commentary

Powers and Functions

Powers and Functions have caused some delays in finalizing issues as more than one organ of state is involved in approval.

Implications of restructuring and other major events into the future

Council adopted a new organisational structure in March 2006, which included the creation of five new posts for Executive Managers as well as the creation of the Municipal Manager's department. Two Executive Managers have already been appointed and staff associated with the office of the Municipal Manager has also been appointed. The Executive Manager: Finance and Executive Manager Infrastructure and Services posts have been advertised and is due to be filled. This creates vacancies for a vital component of the Municipal organisational structure.

8 Funding the Budget

Fiscal Overview

In the recent past, the Municipality experienced a period of extremely tight financial constraint. This was initially brought about by demarcation and incorporation, which increased municipal boundaries and responsibility. Although the Municipality was on the brink of serious financial difficulty, the finances were carefully managed with close scrutiny on spending, minimal capital programmes and borrowing, and careful monitoring of cash flow.

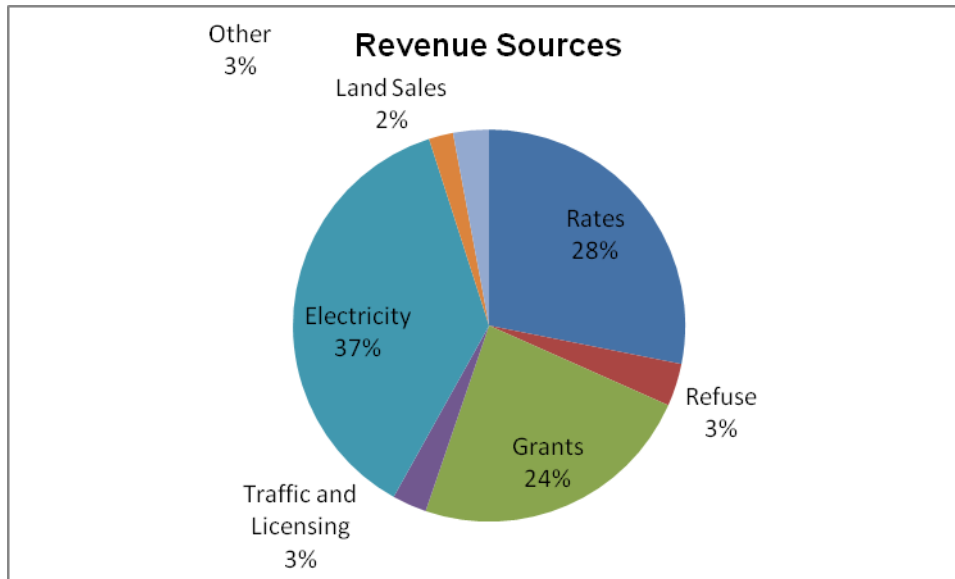
This prudent management turned the precarious situation around, and in the 2005/06 Budget, the Municipality was able to embark on a capital programme accelerating service delivery using long term borrowing. Cash reserves have been used to fund the 2006/2007 capital programme and cash flow requires ongoing careful monitoring. In 2007/2008, a loan of R6.7m was accessed to fund the purchase of vehicles. Cash resources are minimal due to the decline in the payment rates.

Financial Statements for 2008/2009 were prepared in terms of Generally Recognised Accounting Practice and a qualified audit report has been received from the Auditor-General.

Financial Services has developed a 3-year financial model, which is submitted with the budget. This financial planning tool is used to model the impact of different tariff increases, the impact of varying salary increases, the impact of different levels of loan funding and other major budget variances. By using a 3-year timeframe, it is possible to assess the impact of decisions over time and assist decision makers to make budget decisions that are sustainable.

PART 2 – Budget Commentary

The Municipality is in a strong position in terms of generating its own revenue through rates and taxes and in year one of the tabled budget, 24 % of income is received from external sources as detailed in the graph below 'Sources of Revenue'.



One of the challenges the Municipality faces is improving debt collection for those ratepayers who can afford to pay. As indicated in Section 10 of this document, average collection rates are around 73% and have declined over the past 12 months. However, outstanding debt amounts to over R106 million and it is crucial that the credit control focus on the collectable debt and any uncollectable debt is written off.

R28 million was written off in the 2009/2010 year.

It is important the Credit Control policy with regard to indigency is monitored and reviewed to ensure that the policy is fair, addresses the needs of the poor, and is efficient and cost effective to administer. It is also an important responsibility of the Council to ensure that the policy with regard to debt collection is applied fairly but rigorously so that those who can afford to pay do so.

Another major challenge the municipality faces is in terms of funding assets and equipment. There is insufficient funding allocated to maintenance and replacement of existing assets and plant. As a developmental municipality, we have a duty to provide new assets to those communities who are asset poor. However, financially we are struggling to maintain existing assets. Adding to the asset base further exacerbates the maintenance issue and it is not sustainable within current budgeting techniques.

In terms of the MFMA and GRAP, for a credible budget, all depreciation should be included as an expense to build funds for maintenance and replacement of assets.

PART 2 – Budget Commentary

However in the 2010/2011 budget presented, more than R 26.4 million of depreciation on mainly grant-funded assets has not been included. Although the R17.7 million provided for depreciation in the budget is a substantial increase over last year it is vital that we continue to progressively increase depreciation funding in the budget so that in the medium to long term, we are compliant with legislation and have provided for the maintenance and replacement of existing assets. A total of R64 million is the total amount that is included in the schedules to National Treasury. This is a non cash item, and therefore does not need to be funded.

Another aspect of capital planning which needs to be improved is providing the full cost implications for capital projects including operating, staff, maintenance, and asset replacement costs. It is important that the Council know the full life cycle cost of an asset when budgeting for it, as it will have future budget implications and the project will impact on current and future tariffs.

Much of the Municipality's plant fleet is old and spends more time in the workshop than in providing service delivery. Hire of heavy plant and maintenance and downtime of plant is a major cost. In recognition of this dilemma, significant funds have been directed towards plant and equipment purchases for the past two financial years. This budget continues with this focus with a further R 5.1 million allocated for vehicles. A medium to long-term plan for the replacement of plant and equipment needs to be developed and continued Council commitment to funding this plan is important to ensure wider and more efficient service delivery.

These issues can be addressed by moving toward a longer-term outlook for all planning including capital and asset planning. Deciding on capital projects just before the beginning of the financial year puts great risk on the ability of the service departments to complete all the necessary processes and finalise the project within any financial year. By committing to 3 -5 year capital plans, the Council improves the ability to deliver as lead times enable proper planning. Longer term planning also enables the Council to demonstrate to the community that while there are competing priorities with insufficient funds, their needs are being catered for in the medium term.

To expand and sustain services is also essential to limit staff costs and contain them within a reasonable percentage of the budget. New staffing must be assessed in the light of providing on the ground service delivery and current staff assessed as to how efficiencies can be gained. Developing and recruiting the right level of skills continues to be a challenging issue.

Sources of Funding

Rates, tariffs and other charges

Details of Rates tariffs are provided in the Rate Resolutions in Section 2 of this document. Details for Refuse tariffs for which the proposed increase is 8% and for

PART 2 – Budget Commentary

electricity charges, the proposed increase is 18.03% and the minor tariff and other charges are provided in the **Tariff Policy – Annexure 2**.

Below is the history of tariff increases and **increases** in major tariffs for 2009/2010 and estimates for the outer 2 years.

Rate/Tariff	2007/08		2009/10	2010/11	Estimated
		2008/09			2011/12
Rates	8.0%		8%	8%	12%
Electricity Tariff	5.6%	5%	25%	18.03%	25.8%
Refuse Tariff	8.0%	6%	8%	8%	17%

The Municipality has adopted a **Tariff Policy** attached as **Annexure 2**, which provides for major services and lists minor services and tariffs.

Changes to minor tariffs are highlighted in bold in the attached document. Most minor tariffs have been increased in line with the global growth rate.

Debt Collection rates for the current and previous financial years are detailed in Section 10 with the average collection rate to February 2010 being 73% which is a decline over previous years. The Credit Control Section has implemented a 19-point arrears collection plan, which targets debtors for the best method of achieving collection. The Credit Control Section is assisted by the Legal Section in the collection of the outstanding debt. With full support for the Credit Control Policy and implementation of the collection plan, it is anticipated the collection percentages could rise by 1-2% for the 2010/2011-budget year. Performance Indicators for each major tariff are provided in **Supporting Table SA 8**.

Investments – cash backed accumulated surplus

The Municipality's own funds currently are in the primary account of the Municipality and have not been invested as detailed in **Supporting Tables SA 16 and SA17**. The municipality has numerous call accounts for its grant funds and funds for specific projects such as the Valuations exercise and the cash backing of the depreciation to purchase new equipment or rehabilitate existing equipment.

The Municipality currently has R30 million in reserves backed by investments, but in accordance with Generally Recognised Accounting Practice, and in an effort to address asset and equipment issues, the Capital Replacement Reserve has been opened in the 2008/2009 financial year.

PART 2 – Budget Commentary

Interest and the principal on all municipal borrowings are repaid at intervals determined in the loan agreement and included in the budget. Therefore sinking funds to repay the principal debt at the end of the loan period is not required.

Housing funds are held in trust on behalf of the Department of Housing and are separately invested.

Grant allocations

Supporting Table SA 18 details gazetted grant allocations for 2008/2009, the current year, 2010/2011 and the outer 2 budget years.

Each of the grants provided by **National Government** is listed below with a brief description of the use of the grant and other relevant information.

1. The **Equitable Share** Grant is a non-conditional Grant which is used towards addressing service delivery backlogs and providing a 'social package' to the poor in terms of free basic electricity and refuse. A trial is also being undertaken for free alternative energy.
2. The **Financial Management** Grant is used to promote and support reforms to financial management and implementation of the MFMA. Primary areas of focus have been the employment of Financial Interns, systems improvement for legislative and Accounting Standard compliance, and addressing finance capacity issues through external staff training. It is planned to use all, retained and future FMG funds towards funding positions in the Finance Departments organogram in the medium term and developing Information Technology requirements, such as the Supply Chain Management Supplier Database. Reporting on expenditure is provided monthly to National Government within the required timeframe and in full compliance with DoRA.
3. The **Municipal Systems Improvement Programme** is used to ally some of the substantial costs involved in implementing the Municipal Property Rates Act.
4. The **Municipal Infrastructure Grant** supplements the Municipality's capital budget to eradicate backlogs in infrastructure. MIG projects are prioritised using the IDP and business plans submitted to DPLG for approval.
5. The **Integrated National Electrification Programme** provides capital funds to address the electrification backlog of permanently occupied residential dwellings, installation of bulk infrastructure and rehabilitation of infrastructure.

Listed below are grants received from **Provincial Government**:

1. Museum Services

PART 2 – Budget Commentary

2. Health – Clinics
3. Municipal Property Rates Act
4. CRU Program
5. Libraries

Sale of assets

R5 million in revenue has been included in year one of the budget from sale of assets, which are land and property sales. It is important to recognise that this revenue is a once off, and cannot be relied on as a sustainable source of income. Accordingly, this revenue should not be used to fund recurrent expenditure such as organisational restructuring or ongoing maintenance and expenses.

Borrowing

Supporting Table SA 17 provides details of borrowing in the previous and current years and projections for the 2009/2010 and the outer 2 budget years.

This borrowing programme is based around the projection of the 3 -Year Financial Model provided with the budget, which uses financial assumptions and trends to assist in estimating the levels of affordable capital programmes that may be provided over the next three years. Both interest and redemption are budgeted for in the model. Naturally if any assumptions in the model change, it will affect the overall picture.

Long-term borrowing will be undertaken for capital programmes only, and there is no anticipated need for short term borrowing as operational expenditure will be funded from revenue and cash.

9 Disclosure on Allocations Made by the Municipality

An amount of R185 000 has been provided for Grant in Aid to Community Groups, Sporting Organisations and organisations assisting the poor. Actual allocations will be in accordance with Council's Grant in Aid Policy and community requests.

10 Disclosure on Salaries, Allowances and Benefits

Details of personnel and salaries allowances and benefits for Councillors and officials are provided in **Supporting Tables SA 22, 23, 24** .

PART 2 – Budget Commentary

11 Monthly Cash Flows by Source

Monthly Cash Flows are detailed in **Supporting Table SA 25**.

12 Measurable Performance Objectives (Revenue Source and Vote)

Annual measurable performance objectives for each revenue source and for by expenditure vote are provided for in **Supporting Table SA 7**.

Annual performance objectives will be converted into quarterly targets for the Service Delivery and Budget Implementation Plan (SDBIP).

13 Disclosure on Implementation of MFMA & Other Legislation

The Municipal Financial Management Act (MFMA) is the most major financial reform in South African Local Government history and forms part of a broader programme in local government reform which includes the Municipal Systems Act, the Municipal Structures Act and the Municipal Property Rates Act. Implementation of the MFMA is being rolled out, but as a high capacity Municipality, most of the provisions of the Act already apply to Emnambithi/Ladysmith.

The Municipality applies monies from the Financial Management Grant towards implementation of the MFMA and capacity building. A MFMA Implementation Plan has been developed and progress is monitored.

The budget process is commenced early in the financial year and is required to be driven by the Mayor and EXCO. A key impact of the MFMA is to move away from a one-year budget to a three-year budget that is linked to the IDP. The budget should be forward looking and provide longer term capital planning to prioritise capital development and assist in addressing backlogs and service delivery in the community.

The MFMA requires that performance on budget delivery be monitored through the use of Service Delivery and Budget Implementation Plans for each municipal department. These were introduced in the 2005/06 Budget and will be further refined for this budget. The Municipal Performance Management System required in terms of the Municipal Systems Act including Performance Agreements for managers reporting to the Municipal Manager, has been developed and rolled out.

PART 2 – Budget Commentary

14 Budgets and SDBIPs – Departmental / Functional (Internal)

The MFMA allocates responsibility for the implementation of the approved budget to the Municipal Manager (s 69) ,who must provide the Mayor with a draft Service Delivery and Budget Implementation Plan (SDBIP) within 14 days of the approval of the Budget.

In line with legislation, Emnambithi/Ladysmith will prepare departmental SDBIP's for the budget including capital programmes.

15 Summary of Detailed Capital Plans

Indication of capital plans will be contained in the SDBIP when completed. The capital plans in the SDBIP where possible, provide detail regarding:

- Information by programme and municipal ward
- MIG sector priorities (refuse, electricity, roads, etc)
- The source of the funding for the capital programme

supporting table SA 28 shows capital expenditure by municipal vote.

Some of the improvements still required in terms of capital budgeting include identifying the total cost of the capital programme, including such items as operating costs, full depreciation, and maintenance and repair. When identified there should be sufficient budget allocated to cover the costs and future financial and non-financial implications considered including the tariff implications. Approval of the capital budget for the medium term will also enable detailed capital works plans to be prepared which indicate delivery by ward over three years.

16 Budgeted Financial Statements

Budgeted Financial Statements are required to be prepared according to the appropriate accounting standards. These are included in the schedules tabled.

A2 to A4